

Finance Committee

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FINANCE COMMITTEE

LEGISLATION ENACTED

financial transactions; omnibus (S.B. 1046) – Chapter 103 E

An emergency measure, effective April 22, 2014, that modifies statute relating to financial transactions as follows:

Conforms statute to federal law by requiring the calculation of all loans to a person to include any credit exposure arising from: 1) derivative transactions; 2) repurchase agreements; 3) reverse repurchase agreements; 4) securities lending transactions; or 5) securities borrowing transactions between the bank and a person.

Clarifies that the board of directors of an irrigation district is authorized to invest all money belonging or credited to the district, in accordance with statute.

Updates statute to conform to changes to Article 9 of the Uniform Commercial Code as follows:

Identifying the Debtor – Establishes the following in regards to identifying a debtor: 1) outlines financing statement requirements to sufficiently provide the name of the debtor for collateral held in a trust that is a registered organization; 2) specifies that a financing statement sufficiently provides the name of the debtor on the public organic record most recently filed with, issued or enacted by the registered organization's jurisdiction that purports to state, amend or restate the registered organization's name; 3) specifies that the name of the decedent and an indication that the collateral is being administered by a personal representative must be in separate parts of a financing statement; 4) outlines requirements for a financing statement to sufficiently provide the name of the debtor if the collateral is held in a trust that is not a registered organization; 5) stipulates that a financing statement sufficiently provides the name of the debtor, if the financing statement provides the name indicated on the debtor's unexpired driver license; 6) requires a financing statement to provide the individual name of the debtor or the surname and first personal name of the debtor, if the debtor does not have a current driver license in order to sufficiently provide the name of the debtor; 7) specifies that if the debtor does not have a name, the names of the persons comprising the debtor must be provided in a manner that each name would be sufficient if the person named were the debtor; 8) stipulates that the name of the decedent indicated on the order appointing the personal representative of the decedent issued by the court over the collateral is sufficient as the name of the decedent; 9) specifies that, if this state has issued more than one driver license to an individual, the one that was issued most recently satisfies naming requirements; and 10) includes a main office, home office or other comparable office in the location designation of a registered organization, branch or agency for the purposes of locating the debtor.

Jurisdiction – Applies the following to collateral to which a security interest attaches within four months after the debtor changes its location to another jurisdiction: 1) designates a financing statement filed in its prior jurisdiction before the change is effective if the financing statement would have been effective to perfect a security interest in collateral had the debtor not changed its location; 2) stipulates that a security interest remains perfected if the security interest

is perfected before it becomes ineffective under the prior jurisdiction or the expiration of the four-month period; and 3) designates a security interest unperfected and deemed never to have been perfected against a purchaser of the collateral for value if the security interest does not become perfected under the other jurisdiction before the earlier time or event.

Applies the following if a financing statement naming an original debtor is filed in a jurisdiction other than where the new debtor is located: 1) designates the financing statement is effective to perfect a security interest in collateral acquired by the new debtor if the financing statement would have been effective to perfect a security interest in the collateral had the collateral been acquired by the original debtor; 2) stipulates that a security interest perfected by the financing statement that becomes perfected under the law of another jurisdiction before the earlier of the time the financing statement would have been ineffective; and 3) designates that a security interest perfected by the financing statement but that does not become perfected under law of another jurisdiction before the earlier time or event becomes unperfected and is deemed never to have been perfected as against a purchaser of the collateral for value.

Information Statement – Allows a person to file an information statement regarding a filed record, if the person is a secured party of record to the financing statement and believes that the person who filed the record was not entitled to do so under law. Requires the information statement to: 1) identify the record by the file number assigned to the initial financing statement; 2) indicate that it is an information statement; and 3) provide the basis for the person's belief that the person who filed the record was not entitled to do so under law.

Transition – Adds the following to statute governing secured transactions: 1) outlines requirements relating to effectiveness on perfected and unperfected security interest as it relates to the effective date; 2) enumerates requirements relating to the effectiveness of filing a financing statement or a continuation statement before the effective date; 3) stipulates that the filing of an initial financing statement in the filing office continues the effectiveness of a statement filed before the effective date for the specified period with respect to an initial statement, if required conditions are met; 4) outlines standards for a person to add or delete collateral, continue or terminate the effectiveness, or otherwise amend the information in a pre-effective financing statement after the effective date; 5) allows a person to file an initial financing statement or a continuation statement under specified conditions; and 6) stipulates that the former secured transactions chapter (as added in 1999) determines the priority of conflicting claims to collateral, if the relative priorities of the claims were established before the effective date.

Miscellaneous – Specifies that an *initial* financing statement must indicate that the statement is effective until a termination statement is filed, if a debtor is a transmitting utility. Stipulates that a secured party has control of electronic chattel paper, if a system employed for evidencing the transfer of interests in the chattel paper reliably establishes that the chattel paper was assigned to the secured party. Applies certain sales related to a disposition of collateral after default or an acceptance of certain collateral to standards of ineffectiveness. Excludes, from standards of ineffectiveness regarding healthcare insurance, certain sales related to a disposition of collateral after default or an acceptance of certain collateral. Updates the financing statement forms contained in statute. Modifies and adds definitions.

closing protection letters; escrow agents (S.B. 1047) – Chapter 216

Modifies requirements for the issuance of closing protection letters by title insurers. Permits a title insurer to provide a closing protection letter to any person who is a party to a transaction where a title insurance policy will be issued. Specifies that a closing protection letter can indemnify a person insured under a title insurance policy against a loss that results from the following: 1) theft or misappropriation of settlement monies as outlined; and 2) as to a buyer or lender, failure to comply with the written closing instructions when agreed to by the settlement agent, title insurance agent or employee of the title insurer, as specified. Requires a title insurer to charge a fee not to exceed \$25 to a party receiving a closing protection letter earned on the closing of the transaction and specifies the fee is not subject to any agreement requiring a division of fees or premiums collected on behalf of the title insurer. Prohibits a title insurer from providing any other protection that purports to indemnify against improper acts or omissions of a person with regard to the settlement or closing services.

tax credit; excise; SSN (S.B. 1081) – Chapter 68 RFEIR

Subject to the requirements for enactment for initiatives and referendums (Proposition 105), which requires the affirmative vote of at least three-fourths of the members of each house of the Legislature, requires a valid social security number for a claimant and either a social security number or federal tax identification number for a claimant's spouse and any qualifying children to be included on tax returns or forms certifying exemption from income liability for taxable years beginning January 1, 2015.

ASRS; employee background checks (S.B. 1082) – Chapter 218

Allows the Director of the Arizona State Retirement System (ASRS) to: 1) conduct criminal records checks for current or prospective employees; 2) require a current or prospective employee, if requested, to submit a full set of fingerprints to the Department of Public Safety; and 3) conduct credit checks for accounting, investment and other finance-related positions. The Director of ASRS must establish a policy for conducting those credit checks that includes: 1) the method for determining when a credit check may be conducted; 2) retaining records relating to the reason for the credit check; and 3) notifying an employee of the credit check and the result of the credit check.

ASRS; applicable interest rate; definition (S.B. 1083) – Chapter 180

Specifies that the stability period during which the applicable interest rate remains constant is the plan year, and stipulates that the look-back month used to determine the applicable interest rate during the stability period is the third full calendar month preceding the first day of the stability period. Defines *applicable interest rate* as the annual interest rate on 30-year treasury securities as specified by the Commissioner of the Internal Revenue Service.

ASRS; long-term disability compensation (S.B. 1084) – Chapter 69

Redefines *monthly compensation* as the amount determined by taking the six pay periods immediately before the date of the Arizona State Retirement System member's disability,

disregarding the highest two and lowest two compensation amounts, and deriving the median of the two remaining pay periods. If the member was employed for fewer than six pay periods, monthly compensation is determined by deriving the median of the number of pay periods the member worked.

insurance holding companies; enterprise risk (S.B. 1089) – Chapter 104

Conforms statute to include the following national accreditation requirements regarding insurance holding companies:

Requirements for Proposed Acquisition or Divestiture of an Insurer – Requires a controlling person of a domestic insurer who seeks to divest its controlling interest in that insurer to file a confidential notice of its proposed divestiture with the Director of the Department of Insurance (Director) at least 30 days before the cessation of control and specifies related requirements for the Director.

A statement regarding the acquisition of control of or merger with a domestic insurer (acquisition statement) is required to be filed with the Department of Insurance (DOI) and must include the following: 1) an agreement that an annual enterprise risk report be filed with the Director; and 2) an acknowledgement that all information requested by the Director is to be provided for the purposes of evaluation of enterprise risk to the insurer.

If a proposed acquisition of control requires the additional approval of other states, on request of the person filing an acquisition statement, the Director may hold a public hearing on a consolidated basis for the purpose of receiving public comment on a proposed agency action. Within five days after making the request for a public hearing, the acquisition statement must be filed with the National Association of Insurance Commissioners (NAIC). The Director is permitted to opt out of a consolidated hearing and must provide notice to the applicant of the opt out within 10 days after receiving the acquisition statement.

Registration Statement Form and Content – Adds information that must be included in the registration statement that every registered insurer must file with the Director, including agreements in force that occurred during the last calendar year between the insurer and its affiliates, financing statements requested by the Director and any other information required by the Director by rule.

Requires the ultimate controlling person of each insurer subject to registration to file an annual enterprise risk report that identifies the material risks within the insurance holding company system that could pose enterprise risk to the insurer. The Director is permitted to require any authorized insurer that is a member of an insurance holding company system that is not subject to registration to furnish a summary outlining all items in the registration statement.

Standards – Stipulates that transactions within an insurance holding company system to which an insurer is subject to registration are subject to agreements for cost sharing or management services, and management must include provisions that are required by rule. Amendments and modifications of affiliate agreements previously filed that are subject to any materiality standards are prohibited from being entered into unless the Director is notified. The

amendments and modifications must include the reasons for the change and the fiscal impact on the domestic insurer.

Outlines requirements that must be included among the list of transactions involving a domestic insurer and any person in its insurance holding company system that may not be entered into unless the insurer notifies the Director.

Material Changes to Amendment Forms and Reporting of Dividends – Requires registered insurers to report all material changes or additions on amendment forms within 15 days after the end of each month. Each registered insurer must report all dividends and other distributions to shareholders and to the Director within five business days following the declaration and at least 10 business days before payment of the dividend or distribution.

Disclaimer of Affiliation or Control – Clarifies that a disclaimer of affiliation (disclaimer) must be approved unless the Director notifies the filing party that the disclaimer is disallowed. Stipulates that the disclaiming party is not required to register with DOI if the Director approves the disclaimer or if the disclaimer is deemed to have been approved. If the Director disallows the disclaimer the party can request an administrative hearing, which must be granted.

Examination of Registered Insurers – Stipulates that the Director has the power to examine any registered insurer and its affiliates to ascertain the financial condition of the insurer.

Enumerates the information the Director may order a registered insurer to produce in order to determine compliance. If an insurer cannot obtain the requested information, the insurer must provide the Director with a detailed explanation of the reason that the information cannot be obtained and the identity of the information holder, and is subject to specified penalties.

Permits the Director to issue subpoenas, administer oaths and examine under oath any person for the purpose of determining compliance. If a person fails or refuses to obey a subpoena, the Director can petition a court of competent jurisdiction seeking relief from the court and the court can enter an order compelling the witness to appear and testify or produce documentary evidence.

Confidential Materials – Clarifies that confidential information provided to the Director is not subject to discovery or admissible as evidence in a private civil action and stipulates that the Director can share nonpublic documents, materials or other information with specified entities if the recipient has verified in writing the legal authority to maintain confidentiality.

Requires the Director to enter into written agreements with the NAIC that govern the sharing and use of statutorily required information and specifies requirements for such agreements.

Specifies that documents, materials or other information in the possession or control of the NAIC or its affiliates or subsidiaries is: 1) confidential by law and privileged; 2) not subject to subpoena, discovery or statute governing searches and copies; and 3) not admissible as evidence in any private civil action.

Violations – If it appears to the Director that any person has committed a violation regarding the acquisition or divestiture of an insurer and that violation prevents a full understanding by the Director of the enterprise risk to the insurer by affiliates or by the insurance holding company system, the violation may serve as an independent basis for disapproving dividends or distributions and for placing the insurer under an order of supervision.

Supervisory Colleges – Authorizes the Director to enter into agreements providing the basis for cooperation between the Director and other regulatory agencies and the activities of a supervisory college in order to assess the business strategy, financial position, legal and regulatory position, risk exposure, risk management and governance processes as part of the examination of individual insurers.

Permits the Director, in order to determine compliance by an insurer, to participate in a supervisory college for any domestic insurer that is part of an insurance holding company system with international operations and outlines additional related abilities of the Director. Each registered insurer is required to pay the reasonable expenses of the Director's participation in a supervisory college. Permits the Director to establish a regular assessment to the insurer for the payment of expenses.

Management of Domestic Insurers – An insurer must be managed so as to assure its separate operating identity; a domestic insurer is not precluded from having or sharing a common management or the cooperative or joint use of personnel, property or services with one or more other persons under arrangements which meet standards established in statute.

Stipulates that one-third of the directors of a domestic insurer and at least one-third of the members of each committee of the board of directors of any domestic insurer must: 1) be comprised of persons who are not officers or employees of the insurer or of any entity controlling, controlled by or under common control with the insurer; and 2) not be beneficial owners of a controlling interest in the voting stock of the insurer or entity. Requires at least one person to be included in any quorum for the transaction of business at any meeting of the board of directors or any committee. Requires the board of directors to establish one or more committees composed solely of directors with similar requirements as outlined above and outlines the responsibilities of the committee. Stipulates that the makeup of the board of directors does not apply to a domestic insurer if the person controlling the insurer has a board of directors and committees that meet membership requirements.

Permits an insurer to apply to the Director for a waiver from committee requirements under specified circumstances. Allows the Director to consider the following when determining those circumstances: 1) the type of business entity; 2) volume of business writer; 3) availability of qualified board members; and 4) the ownership or organizational structure of the entity.

Miscellaneous – Exempts DOI from rulemaking requirements for two years for the purpose of implementation and modifies terms and definitions.

sanitary district bonds; terms (S.B. 1164) – Chapter 109

SEE THE GOVERNMENT AND ENVIRONMENT COMMITTEE.

luxury privilege tax; cider; definition (S.B. 1180) – Chapter 110

Expands the definition of cider under the luxury privilege tax provisions to include pears and pome fruit as ingredients and exempts the Department of Revenue from rulemaking requirements for one year for the purpose of implementation.

guaranty fund; workers' compensation (S.B. 1181) – Chapter 186

Effective July 1, 2015, establishes the Workers' Compensation Account within the Arizona Property and Casualty Insurance Guaranty Fund (Guaranty Fund) and transfers all rights and obligations related to the payment of workers' compensation claims for insolvent insurers from the Special Fund within the Industrial Commission's Administrative Fund to the Guaranty Fund. Rights and obligations related to the administration of workers' compensation claims for which the Industrial Commission of Arizona (ICA) has contracted a third party processor are transferred to the Guaranty Fund. The transfer of \$222,848,153 in assets from the Special Fund to the Guaranty Fund for deposit into the Workers' Compensation Account must be completed before June 1, 2015.

In order to accommodate obligations related to workers' compensation claims, makes a series of changes to the Guaranty Fund as follows: 1) obligations arising from worker's compensation claims are exempt from repayment limits; 2) a workers' compensation claim made to the Guaranty Fund may not be reduced based on recoverable amounts of uninsured motorist damages; 3) payments made through the Workers' Compensation Insurance Account may not be prorated; 4) a settlement for a workers' compensation claim that is approved by an ICA award and made final by an administrative law judge cannot be voided by the Guaranty Fund; 5) at least one member of the Guaranty Fund Board must represent a workers' compensation insurer; and 6) the Guaranty Fund may not bar claims that are not filed within four months of a notice to creditors.

Any claim for workers' compensation made against the liquidator or receiver of an insolvent insurer will not be considered covered by the Guaranty Fund if it is made more than 18 months after an order of liquidation or after the filing date set by a court; this limitation does not apply to claims arising from occupational illnesses that manifest after the 18-month period. Initial claims for workers' compensation must be made to the Guaranty Fund, or equivalent, in the individual claimant's place of residence. An individual who is making a claim to Arizona's Guaranty Fund for workers' compensation retains all rights and obligations conferred under Arizona labor laws and must exhaust those rights and obligations before making the claim.

Institutes a maximum 90 day stay of proceedings for an action brought to the ICA regarding an employee's entitlement to workers' compensation benefits where an insolvent insurer is a party. Further, an insurer with an order of liquidation and a finding of insolvency entered against them is considered an insolvent insurer.

Insurance carriers seeking to transact workers' compensation insurance are no longer required to provide a deposit prior to the issuance of a certificate of authority; deposits made prior to the passage of this legislation may be refunded by the Director of the Department of Insurance. The assessment for the Special Fund is reduced from 1.5 percent to 1 percent of all premiums received by private insurers and the ICA is no longer permitted to increase this assessment. A certificate of contribution may not be used as an offset against premium taxes and assessments that are collected for workers' compensation insurance. Prohibits the expenditure of Guaranty Fund assessments for any purpose other than the purpose of the deposit account.

school district overrides; bonds; information (S.B. 1182) – Chapter 111

SEE THE EDUCATION COMMITTEE.

insurance policies; electronic notices (S.B. 1222) – Chapter 188

Permits any notice or required documents relating to property, casualty and life insurance policies to be delivered, stored and presented by electronic means if the receiving party electronically consents to that method. Stipulates that the electronic delivery of a notice or document is equivalent to any delivery method required in insurance statutes. An insurer is required to inform a party if a change in the hardware or software requirements needed to access or retain a notice or document delivered by electronic means creates a material risk that the party will not be able to access or retain subsequent notices or documents; the party can treat failure to provide this notification as a withdrawal of consent.

An insurer is required to maintain verification for a period of five years if a notice of nonrenewal, cancellation or reduction in the limits of liability or coverage is sent electronically through an electronic mail delivery service that provides electronic postmarks. The verification must contain sufficient information for the Department of Insurance (DOI) to determine if the notice was properly sent. An insurer that provides a notice by electronic means is required to further deliver that notice to the named insured by U.S. Postal Service certified mail, certificate of mailing or first class mailing using intelligent barcode or another similar tracking method if: 1) the notice being electronically delivered is rejected for delivery or returned to the insurer; or 2) the insurer becomes aware that the electronic mail address provided by the party is no longer valid.

Outlines requirements related to withdrawal of consent. If a party's consent to receive certain notices or documents in an electronic format is on file with an insurer before the effective date and the insurer intends to deliver additional notices or documents to that party in an electronic format, the insurer must notify the party of both of the following before delivery: 1) the notices or documents that can be delivered by electronic means that were not previously delivered electronically; and 2) the party's right to withdraw consent to have notices or documents delivered by electronic means. An insurer is prohibited from charging a fee to a party who does not consent to receiving notices or documents by electronic means.

nonprofit corporations; state monies; audits (S.B. 1272) – Chapter 221

Repeals biennial audit requirements for certain nonprofit corporations receiving state assistance and requires all nonprofit corporations that receive more than \$250,000 in state

assistance in a single year to submit financial statements to the grantor agency. The required financial statements must either: 1) be prepared and audited in accordance with federal single audit regulations; or 2) be prepared according to generally accepted accounting principles and audited by an independent certified public accountant. Nonprofit corporations that receive less than \$250,000 in state assistance in a single year must comply with contractual requirements concerning financial and compliance audits.

public safety officers; omnibus (S.B. 1284) – Chapter 190

SEE THE PUBLIC SAFETY COMMITTEE.

internal revenue code conformity (S.B. 1300) – Chapter 223

Conforms the definition of *Internal Revenue Code* in statute to the federal definition as of January 1, 2014, including all retroactive provisions adopted in 2013.

2014 tax corrections (S.B. 1301) – Chapter 245

Corrects errors and obsolete language, addresses blending problems and provides clarifying changes to the tax statutes. Conforms statute to comply with 2013 transaction privilege tax (TPT) changes. Clarifies that the gross proceeds of sales or gross income derived by a qualified destination management company from transactions that are not part of a qualified contract for destination management services are subject to TPT. Conforms statute by classifying the real and personal properties of electric cooperatives that are valued at full-cash value as class one property. Requires the account administrator of a long-term health care savings account to make an annual report to the Department of Revenue (DOR) and the taxpayer by January 31 of the year following the calendar year to which the report relates and outlines required report information. Removes language prohibiting a taxpayer from claiming any amount that was deducted pursuant to Section 164 (b) (6) of the Internal Revenue Code (IRC) for qualified motor vehicle taxes. Outlines information required to be added and subtracted from Arizona gross income in computing Arizona taxable income for a corporation. Clarifies that in 2006, a school tuition organization was prohibited from issuing an educational scholarship or tuition grant in an amount that exceeded \$4,200 for students enrolled in a disabled preschool or kindergarten. Clarifies that the repeal of statute regarding the individual credit for water conservation systems and the corporate credit for water conservation system plumbing stub outs installed in houses constructed by a taxpayer does not affect the use of any carryovers from unused credits earned before the repeal.

~~fire; building; life safety; continuation~~ (NOW: model city tax code; changes) (S.B. 1331) – Chapter 121

Retroactive to July 2, 1988, stipulates that any changes to the Model City Tax Code (MCTC) that are not reflected in the official copy on file with the Arizona Department of Revenue (DOR) are void. Any claim for refund of transaction privilege tax (TPT) paid based on the retroactivity application must be submitted to DOR or the appropriate city by December 31, 2014, and failure to file a claim before the date constitutes a waiver of the claim.

Stipulates that the burden is on the taxpayer to establish the amount of refund claims and requires DOR to review all timely filed claims, determine the correct amount of each claim and notify the taxpayer of its determination. DOR or the appropriate city is prohibited from making a refund until after determining the amount of all filed claims. If a taxpayer appeals a determination, DOR is permitted to notify other taxpayers that have filed claims as to the nature of the delay.

Caps the total amount of refunds at \$10,000 and requires DOR to reduce each claim proportionately to comply with the cap. Interest is prohibited from being allowed or compounded on a refund paid before July 1, 2015, and unpaid amounts after July 1, 2015 must accrue interest.

Specifies that beginning July 1, 2012, the failure of a city or town to notify the Municipal Tax Code Commission of a new or different tax rate renders that rate void. Defines *new or different tax rate* as the adoption or repeal of a model or local option or any change that increases the amount of tax a taxpayer must pay to a city or town.

ADE school finance revisions (S.B. 1350) – Chapter 226

SEE THE EDUCATION COMMITTEE.

multipurpose facilities districts; Rio Nuevo (S.B. 1351) – Chapter 80

Modifies statute regarding the Rio Nuevo Multipurpose Facilities District. Alters the membership of the board of directors (Board) of a county stadium district (District) to include residents of the county in which the District is located. Requires the Board to submit a report regarding the activities, operations, revenues and expenditures of the District for the preceding fiscal year to the Legislature and the Secretary of State by October 1 of each year. Allows the Senate Finance Committee and the House of Representatives Ways and Means Committee, or their successor committees, to hold separate joint hearings to consider the annual report at the discretion of the chairpersons. Removes the requirement that a notice to proceed be issued for a hotel and convention center to be located on the multipurpose facility site. Requires certain provisions to be followed when public funds are distributed and expenditures reach \$500,000 or more.

property tax roll; corrections (S.B. 1352) – Chapter 249

Makes various technical and conforming changes to the tax roll correction statutes as follows:

Annual Notice of Full Cash Value – Allows a county assessor (assessor) to amend a notice of valuation within 60 days after mailing of the notice if the classification resulted in an incorrect opinion of value and outlines requirements for notification and certification.

Notice of Proposed Correction – Authorizes a taxpayer to appeal any valuation or legal classification issue that arises from proposed corrections and requires a tax officer to meet with the taxpayer to discuss the basis for the dispute. The tax roll must be corrected promptly if the parties reach an agreement on the proposed correction, otherwise, the taxpayer can file a petition

with the State Board of Equalization (Board) within 30 days after the date of the meeting. Enumerates related procedures and requirements, including those related to evidence and limitations.

Notice of Claim – Allows the taxpayer that has filed a notice of claim regarding improperly assessed property to file a petition regarding a notice of claim with the Board within 90 days after the date of meeting. Overpaid taxes must be refunded with interest at a rate determined by the Internal Revenue Code.

Valuation of Property – Clarifies that in valuing any property, the assessor, the Department of Revenue or the review body must use the valuation and legal classification criteria that were in effect on the valuation date for the tax year of correction.

Correcting Tax Roll by County Treasurer – Requires a property owner to be notified of the roll correction if an error or omission is determined and allows the owner to appeal the correction. Specifies when a county treasurer must mail a corrected billing to the taxpayer.

Miscellaneous – Adds and modifies related definitions.

restructuring; Arizona entities (S.B. 1353) – Chapter 193

Beginning January 1, 2015, revises, modifies and adds stipulations allowing corporations and partnerships to participate in mergers, interest exchanges, conversions, domestications and divisions (transactions). Outlines procedures necessary to participate in any transaction, which includes approval of a plan and the signing of a statement, and details the process to amend or abandon the transaction. Describes the effects of a completed transaction and provides procedures for transactions that are ineffective. Revises transaction document filing fees for the Arizona Corporation Commission and the Secretary of State.

money transmitters; money laundering; definitions (S.B. 1408) – Chapter 254

Conforms the criminal code to reflect federal code changes regarding *money laundering*, *money transmitters* and *financial institutions*.

taxes; manufacturers' electricity sales; exemption (S.B. 1413) – Chapter 7

Beginning August 1, 2014, exempts the gross proceeds from sales of electricity or natural gas to businesses principally engaged in manufacturing or smelting operations from transaction privilege tax (TPT) and use tax. In order to qualify for the exemption, a business must use at least 51 percent of the electricity or natural gas in manufacturing or smelting operations. Municipalities are required to either tax or exempt the gross proceeds from sales of electricity or natural gas to such businesses.

tax credit; manufacturers; renewable energy (S.B. 1484) – Chapter 8

SEE THE COMMERCE, ENERGY AND MILITARY COMMITTEE.

revenue; budget reconciliation; 2014-2015 (S.B. 1487) – Chapter 9

SEE THE APPROPRIATIONS COMMITTEE.

insurance; continuing education; definition(H.B. 2001) – Chapter 19

Retroactive to September 12, 2013, redefines *continuously licensed* to include insurance producer licenses that have expired if: 1) the late fee is paid and the license is renewed; or 2) the license is placed on inactive status.

~~ASRS; in-service distributions~~ (NOW: mortgages; trust deeds; deficiency actions) (H.B. 2018) – Chapter 129

Specifies that anti-deficiency protection does not apply to mortgages and deeds of trust originated after December 31, 2014, for the following: 1) property owned by a person who is engaged in the business of constructing and selling dwellings, that was acquired by such person in the course of such business, and that is subject to a mortgage or deed of trust given to secure payment of a loan for construction of a dwelling on the property for sale to another person; 2) property that contains a dwelling that was never substantially completed; and 3) property that contains a dwelling that is intended to be utilized as a dwelling but that is never actually utilized as a dwelling.

Clarifies that a dwelling is completed if either of the following occurs: 1) final inspection is completed, if required by the governmental body that issued the building permit for the dwelling; or 2) if a final inspection is not required by the governmental body that issued the building permit, the dwelling has been completed in all material respects as prescribed in the applicable ordinances and regulations of the governmental body that issued the building permit for the dwelling.

disaster recovery; businesses; tax; regulation (H.B. 2046) – Chapter 43

Temporary Tax Relief – Exempts out-of-state businesses in Arizona on a temporary basis solely for the purpose of performing disaster recovery during a disaster period from filing, remitting, withholding or paying state or local tax as follows: 1) income tax for or during the disaster period; 2) use tax on any infrastructure brought temporarily into this state for or during the disaster period; and 3) property tax on any property brought temporarily into this state for or during the disaster period. Any out-of-state business or a business registered in Arizona with affiliates in the state to perform disaster recovery must provide the Department of Revenue, on request, proper notice that it is in the state for the purpose of providing disaster recovery.

Income of a Nonresident – Exempts out-of-state employees in Arizona on a temporary basis solely for the purpose of performing disaster recovery during a disaster period from filing, remitting, withholding or paying state or local income taxes for or during the disaster period. Prohibits employers from withholding tax on the wages or salary of nonresident employees during that period.

Partnership and Corporate Returns – Exempts an out-of-state partnership or corporation temporarily in Arizona and whose only income in this state is from performing disaster recovery during a disaster period from filing an Arizona partnership or corporate return.

Licensing and Certification Exemption – Exempts out-of-state businesses and employees in Arizona on a temporary basis solely for performing disaster recovery during a disaster period from any state or local registration, licensing or certification requirements related to the performance of the disaster recovery. In order to qualify for the exemption, businesses must be in compliance with all applicable regulatory and licensing requirements in their state of domicile; employees must be in compliance with all applicable regulatory and licensing requirements in their state of residence. Any out-of-state business or business registered in Arizona with affiliates in the state to perform disaster recovery must provide proper notice to the Division of Emergency Management upon request.

travel insurance producer licensing (H.B. 2047) – Chapter 24

Permits a travel retailer to offer and issue travel insurance under a limited lines travel insurance (LLTI) producer business entity license under the following conditions: 1) the LLTI producer or travel retailer provides a purchaser of travel insurance with certain materials; 2) the LLTI producer establishes and maintains a register, on a form prescribed by the Director of the Department of Insurance, of each travel retailer that offers travel insurance on the LLTI producer's behalf; 3) the LLTI producer designates one of the producer's employees, who is a licensed individual producer, as the person responsible for the LLTI producer's compliance with Arizona travel insurance laws and rules; 4) the licensed individual producer complies with the fingerprinting requirements applicable to insurance producers in the resident state of the LLTI producer; 5) the LLTI producer pays all applicable insurance producer license fees; 6) the LLTI producer requires each employee or authorized representative to receive a minimum specified training or instruction program; and 7) the travel retailer offering or disseminating travel insurance provides prospective purchasers brochures or other written materials.

Stipulates that a travel retailer's employee or authorized representative who is not licensed as an insurance producer is prohibited from: 1) evaluating or interpreting the technical terms, benefits and conditions of the offered travel insurance coverage; 2) evaluating or providing advice concerning a prospective purchaser's existing insurance coverage; or 3) holding oneself out as a license insurer, licensed producer or insurance expert.

Specifies that LLTI producers and those registered under the producer's license are exempt from licensing examination requirements and that, as the insurer designee, the LLTI producer is responsible for the acts of the travel retailer and must use reasonable means to ensure compliance by the travel retailer.

insurance adjusters; portable electronics (H.B. 2048) – Chapter 25

Allows residents of a state that does not issue licenses to adjusters for portable electronic device (PED) insurance to apply for a limited line license to adjust PED insurance claims in Arizona without an examination. Residents of Canada may also apply for a license granting the authority to adjust PED insurance claims in Arizona if they have such a license in another state.

Makes changes to statute related to PED sales. Continues to require that written materials be made available to customers notifying them of their option to cancel enrollment for coverage under a PED insurance policy; however, notice that a refund of unearned premium must be made within 60 days is no longer required to be printed as part of this disclosure. Repeals a requirement that PED insurance sales be made in conjunction with and incidental to a PED transaction in order to be exempt from insurance producer licensing and continuing education requirements.

Exempts registered third party administrators of accident, health and life insurance claims from statutory requirements applied to an insurance adjuster.

ASRS membership; section 218 requirements (H.B. 2050) – Chapter 44

Eliminates the requirement that Arizona State Retirement System (ASRS) members be covered by an employer's 218 (Social Security) agreement. Repeals ASRS's defined contribution (DC) plan established by Laws 2013, Chapter 216 as all individuals who would have been eligible for that DC plan would now be required to contribute to the existing defined benefit plan.

Allows newly covered employees to purchase eligible service for cost plus interest within 180 days of membership. Outside of this 180 days, an employee could purchase eligible service in an amount equal to the present value of the additional benefit.

loan originators (H.B. 2098) – Chapter 196

Modifies requirements for obtaining a loan originator license. Extends the period an applicant must complete a course of study from two to three years immediately preceding the time of application. Removes the requirement to have passed the examination less than one year before granting the license and requires an applicant to retake the examination if the license was not maintained valid for five years or longer, not including time during which the applicant was a registered loan originator. Requires late continuing education to be completed in the last year of the loan originator's renewable status. Allows a licensee to be on inactive status for more than two consecutive renewal periods in any 10 year period.

collection agencies; license renewal (H.B. 2099) – Chapter 84

Clarifies that applicants for renewal of a collection agency license must file a financial statement no later than March 1 if an extension is granted and states that licenses not renewed on or before January 1 are suspended. A licensee may renew a suspended license by submitting prescribed fees, a renewal application and any applicable late fees to the Department of Revenue before January 31.

insurers; licensure; director examination (H.B. 2121) – Chapter 29

Modifies the licensure of insurance producers. Permits the business transactions and affairs of each domestic life and disability insurer, service company and mechanical reimbursement reinsurer to be examined on a discretionary basis rather than at least once every five years. Requires an applicant who moves to another state to apply for licensure from the new

resident state within 30 days in order to remain continuously licensed in Arizona. Requires a person who fails an examination for a limited lines of authority license four times within a 12 month period to wait one year to be eligible to retake the exam. Removes the requirement that a bail bond agent be a licensed property producer in order to transact specific civil bonds. Requires surplus lines brokers to file statements as follows: 1) all surplus lines business covering Arizona risks on a semiannual basis; 2) all multistate transactions on a quarterly basis; 3) all surplus lines insurance business covering multistate risks with the responsible clearinghouse on a quarterly basis, if a clearinghouse is established and the Director of the Department of Insurance enters into a multistate agreement or compact. Permits the Department of Insurance to require non-licensee applicants to submit fingerprints for purpose of conducting a criminal background check.

ASRS; election; EORP defined contribution (H.B. 2122) – Chapter 131 E

Current law allows an Arizona State Retirement System (ASRS) member who was subsequently elected to office to choose ASRS or the Elected Officials' Retirement Plan (EORP) defined contribution plan. H.B. 2122 is an emergency measure, retroactive to January 1, 2014, that removes the election option and requires the elected official to remain in ASRS.

Requires an elected official who no longer holds office to apply within one year of terminating office to qualify for any EORP disability program benefit. Payment of that disability benefit would be made retroactive only to the date the Public Safety Personnel Retirement System Board receives application for the disability.

~~technical correction; tax refund account~~ (NOW: county assessor; common area consolidation (H.B. 2141) - Chapter 133

Requires a county assessor to automatically consolidate common area parcel combinations within the same taxing district. If, upon further review, the parcel does not meet requirements of a common area, the parcel must be valued according to standard appraisal techniques. Clarifies that the revocation of a common area parcel valuation does not waive a community or homeowners associations' right to request the common area valuation.

state board of equalization; continuation (H.B. 2161)- Chapter 201

Retroactive to July 1, 2014, the State Board of Equalization is continued until July 1, 2024.

PSPRS contributions; county employers (H.B. 2166) – Chapter 202

Allows a county employer that elected to pay a higher level percentage contribution rate to the Public Safety Personnel Retirement System to eliminate that higher level percentage rate amount for members hired beginning January 1, 2015.

Provides retroactive dates for certain sections of law to allow health subsidies to be excluded from retirees' income for income tax purposes.

tax credits; capital investments; employment (H.B. 2272) – Chapter 168

SEE THE COMMERCE, ENERGY AND MILITARY COMMITTEE.

TPT; postmark; filing by mail (H.B. 2283) – Chapter 139

Effective January 1, 2015, allows a tax filing to be considered timely without a postmark if performed by the taxpayer within five business days after the due date of filing. Clarifies that the delinquent date for filing and payments are: 1) on or before the last business day of the month for electronic filing and payment; and 2) on or before the business day preceding the last business day of the month for all other filings and payments.

technical correction; mining classification (NOW: refined coal transfer; tax exemptions) (H.B. 2285) – Chapter 54

Retroactive to January 1, 2014, for refining facilities constructed in Arizona, exempts the transfer of title or possession of coal from an owner or operator of a power plant to a person in the business of refining coal from state and municipal transaction privilege tax (TPT). Additionally exempts coal acquired from an owner or operator of a power plant by a person who is responsible for refining coal from use tax if: 1) the transfer of title or possession of the coal is for the purpose of refining coal; and 2) the title or possession of the coal is transferred back to the owner or operator of the power plant after completion of the coal refining process.

Specifies that the transfer of title or possession of coal may not be deemed as being engaged in business classified under the TPT retail classification.

senior facilities; bond approval (H.B. 2286) – Chapter 140

Removes the requirement for the Department of Housing to review and approve bonds issued to finance non-profit 501(c)(3) senior facilities. Authorizes reviewing entities to collaborate in the review process including: 1) sharing information; 2) jointly conducting reviews; 3) adopting, in whole or in part, similar review work; and 4) coordinating review schedules. A reviewing entity that adopts review work completed by another reviewing entity is considered to have complied with its review responsibilities.

county treasurer; lien; sale (H.B. 2287) – Chapter 205

Repeals requirements for seized property to be sold to the county if no bid large enough to satisfy the property's outstanding tax lien is received at a public sale, permitting the county sheriff to convey property and title seized for nonpayment of taxes to the highest bidder even if the highest bid is lower than the amount of outstanding taxes. Any action sought to foreclose the right to redeem a tax lien on real property must name the treasurer of the county where the property is located as a party. If ownership of a property has changed after a notice of reclassification is issued by the county assessor, the civil penalty assessed for reclassification of property may not be charged to the new owner.

sales tax; reduced reporting requirements. (H.B. 2288) - Chapter 141

Effective January 1, 2015, requires the Department of Revenue to authorize taxpayers with an estimated annual tax liability between \$2,000 and \$8,000 to pay taxes on a quarterly basis and taxpayers with estimated annual tax liability of \$2,000 or less to pay on an annual basis.

insurance; notification; cancellation; nonrenewal (H.B. 2329) – Chapter 58

Allows an insurer to send notice of cancellation, nonrenewal or reduction of limits in automobile insurance by first class mail using intelligent mail barcode or another similar tracking method for any reason other than nonpayment of premium. Notice of cancellation or nonrenewal of commercial insurance policies may also be mailed by first class mail or delivered electronically to the agent of the insured party.

tax credit; just compensation (NOW: life care contracts; in-home care) (H.B. 2331) – Chapter 91

Allows life-care contracts to include services provided in a person's private residence with the right of future access to services, board and lodging at a care facility. The individual receiving such care in their home is referred to as a *contract holder*.

All life-care contracts must include a period of seven days during which the contract holder may rescind the contract. If a court finds a life-care contract provider to be financially unsound or unsafe contract holders must be notified in the same manner as residents of a care facility. An entrance fee may be charged to a contract holder and held in escrow in the same manner as it would be if that individual were entering a care facility, to be released from escrow on the day care begins.

Applicants seeking to qualify for a permit to enter into a life-care contract to provide services in a person's private residence must include the following, in addition to what is required on the permit application: 1) services that will be provided to contract holders; 2) terms and conditions of the contract; 3) an estimate of the number of contract holders who will be receiving such services; 4) frequency and average dollar amount of periodic rate increases charged to contract holders in the last five years; 5) a statement of the terms and conditions under which the life-care contract may be cancelled; and 6) an actuarial study, including estimated expenses for providing care in individuals' homes. Entities operating under a provisional permit may solicit reservations and collect deposits for the provision of services in private residences. Upon issuance of a permit the Director of the Department of Insurance must record a lien against the care facility in favor of all residents; this legislation includes contract holders in the favor of such liens.

income tax brackets; inflation index (H.B. 2377) – Chapter 10

Requires the Department of Revenue to adjust the income tax bracket for tax year 2015 values using the average annual change in the Metropolitan Phoenix Consumer Price Index. Brackets may not be revised below their value in a previous year.

municipal taxes and fees; prohibition (H.B. 2378) – Chapter 169

Retroactive to January 1, 2014, prohibits the municipal levy of a tax or fee for public services based on the size or value of property, unless that tax or fee is provided in statute. Grandfathers any municipal ordinance adopted prior to December 31, 2013, that requires owners to obtain fire prevention and control services.

technical correction; TPT (NOW: transaction privilege tax changes) (H.B. 2389) – Chapter 263

Makes the following adjustments to statute regarding the implementation of the transaction privilege tax (TPT) changes of 2013:

Licensing – Makes changes regarding TPT licensing. Requires a person who desires to engage or continue in business to annually apply for a state and municipal TPT license valid only for the calendar year in which it is issued. Establishes licensing and renewal fees of up to \$50, as established by city or town ordinance for a municipal TPT license and a due date for renewal fees of January 1. Requires the Department of Revenue (DOR) to collect, hold, pay and manage the fees in trust for the municipality and prohibits DOR from using the monies for other purposes. Prohibits a person from engaging or continuing to engage in business until a municipal TPT license has been obtained. Requires, beginning January 1, 2015, a civil penalty of up to \$25 to be added to the renewal fee for each jurisdiction if a taxpayer continues in business without timely renewing a municipal TPT license. Requires a person who is engaged in business in two or more locations or under two or more business names to procure state and municipal TPT licenses for each location or business name, regardless of whether all locations or business names are reported on a consolidated return under a single TPT license number and stipulates that such a person is required to pay only a single municipal TPT license renewal fee for each local jurisdiction. Requires such a person who does not file a consolidated return under a single license number to pay a renewal fee for each location or license in a local jurisdiction.

Contracting – Revises language pertaining to TPT exemption certificates required for certain contractors and the contractor exemption under the prime contracting classification. Also, removes *addition* and *subtraction* from the definition of *modification*.

Administration – Allows the Department of Revenue (DOR) to accept credit cards for all payments. Allows for e-signatures on all returns, statements and other filed tax documents regardless of whether the document complies with current electronic and digital signature statutory requirements. Requires any person conducting business in two or more locations or under two or more business names to file TPT returns by electronic means. Specifies that municipal TPT levied by a city or town is governed by TPT specific administration statutes and that a city or town is not precluded from levying TPT, sales use or other similar tax as a result of a person's business activities as provided in statute. Prohibits a trained and authorized auditor from representing any taxpayer in any tax matter and requires appeals of audit assessments to be administered pursuant to tax appeals statute. Repeals statute regarding municipal TPT refunds and outlines the process for claims for credit or refunds of municipal TPT for tax periods ending before January 1, 2015. Requires the municipal tax hearing office to hear all reviews of petitions for hearing or redetermination under the model city tax code for cities and towns not in the state collection system as of January 1, 2013. Requires the municipal tax hearing office to hear appeals related to audits initiated by a municipality prior to January 1, 2015, and review all

matters initiated by a municipality beginning January 1, 2015. Stipulates that beginning October 1, 2014, DOR must mail a single notice for annual TPT license renewal to existing license holders and must include renewal for state and municipal TPT and affiliated taxes. Allows DOR, retroactive to April 12, 2013, to share confidential information relating to taxes collected on behalf of a county if the information relates to a taxpayer who is taxable by a county, city or town. Repeals the municipal tax hearing office upon issuance of the final decision promulgated by the municipal tax hearing office and requires DOR to notify the Director of the Arizona Legislative Council of this date in writing.

~~workers' compensation; deviation rate (NOW: self-insured employers; deviation; continuation)~~
(H.B. 2394) – Chapter 35

Continues the 10 percent deviation rate for the purposes of calculating taxes and assessments to be paid by self-insured employers, including authorized workers' compensation pools, through calendar year 2020.

property tax calculations; school districts (H.B. 2395) – Chapter 209

Modifies the time that a county school superintendent (superintendent) must certify the amount of equalization assistance for education and the additional amount required to be levied from the primary property tax to the Property Tax Oversight Commission (PTOC) from on or before three days before the county board of supervisors (BOS) levies school district taxes to July 25 of each year. Requires the superintendent to file a written estimate of the amount of monies required by each school district for the ensuing school year based on proposed budgets adopted by district boards with the PTOC by July 25 of each year. Requires the PTOC to review primary property tax calculations, including the tax levy and rate. Requires the superintendent to file, in writing, an amount required to be levied for each school district from both the primary tax rate and the secondary tax rate to the PTOC and BOS by the third Monday in August. Modifies the date that the superintendent must file estimates of the amount of school monies required by each district for the ensuing year, based on budgets adopted by district boards from not later than August 1 each year to July 25 each year. Eliminates certain requirements that the superintendent must fulfill by notifying the BOS as outlined.

~~state parks; disabled veteran's pass (NOW: property; valuation; renewable energy; equipment)~~
(H.B. 2403) – Chapter 264

SEE THE COMMERCE, ENERGY AND MILITARY COMMITTEE.

~~information technology; interoperable radio communications (NOW: waste facility; prime contracting deduction)~~
(H.B. 2415) – Chapter 228

SEE THE APPROPRIATIONS COMMITTEE.

interstate insurance product regulation compact (H.B. 2482) – Chapter 95

Establishes Arizona as a member of the multistate Interstate Insurance Product Regulation Commission for the purpose of filing, reviewing and approving asset-based insurance products.

consumer lender loans (H.B. 2526) – Chapter 96

Increases the amount of original principle of a consumer lender loan to which the maximum statutory interest rate (equivalent to 36 percent annually) may be applied to from \$1,000 to \$3,000; any amount in excess of \$3,000 may be charged an interest rate up to the equivalent of 24 percent annually. Increases the maximum permissible origination fee for a consumer lender loan from \$75 to \$150. Increases the maximum credit limit of a consumer revolving loan or home equity revolving loan that may be charged a periodic rate equivalent to 36 percent annually from \$1,000 to \$3,000, with any amount extended in excess of \$3,000 subject to a maximum periodic rate equivalent to 24 percent annually. Consumer loans, consumer revolving loans and home equity revolving loans in existence before July 24, 2014, and with total new cash advances of less than \$100 are exempt from rate adjustments.

Prohibits consumer lenders from holding a person responsible for a loan incurred as a result of fraud or identity theft. Derogatory information reported to a consumer reporting agency as a result of fraudulent activity or identity theft must be corrected by the consumer lender. Consumer lenders are also permitted to give consumers prizes, goods, wares, merchandise or other items of tangible property up to \$25 in aggregate value.

insurance; selfevaluative privilege (H.B. 2560) – Chapter 154

Allows an insurance compliance audit (audit) to be conducted by or on behalf of an insurance company licensed, regulated or involved in an activity regulated under state insurance statutes and enumerate what is included in audit documents.

Requires a company to notify the Director of the Department of Insurance (Director) of an audit before it begins, and to notify and make all audit documents available to the Director at the audit's conclusion. The Director is permitted to obtain audit documents at any time and use them in the furtherance of any regulatory or legal action brought as part of the Director's duties. Insurance companies are required to comply with all compliance dates set by the Director with respect to the audit.

Stipulates that audit documents are privileged information and not discoverable or admissible as evidence in any legal action in any civil or administrative proceeding other than a regulatory or legal action brought as part of the Director's duties. Outlines circumstances in which the confidentiality privilege does not apply. A court of record, after an in camera review, can require disclosure of material for which the confidentiality privilege is asserted if the court determines: 1) the confidentiality privilege is asserted for a fraudulent purpose; 2) the material is not subject to the confidentiality privilege; or 3) the privileged material shows evidence of noncompliance with applicable state or federal laws, rules, regulations or orders of the Department of Insurance (DOI) and the company, person or entity fails to undertake corrective action or eliminate the noncompliance within the compliance date set by the Director.

Permits parties to stipulate in civil or administrative proceedings to entry of an order directing that specific information contained in an audit document is or is not subject to confidentiality. The stipulation is limited to the instant proceeding and, absent specific language, is not applicable to any other proceeding. If an audit report is obtained, reviewed or used in a

criminal proceeding, confidentiality privileges are not waived or eliminated for any other purpose.

Specifies that, except for the Director's authority, within 30 days after an insurer is served a written request for disclosure of an audit document, an insurer can file a petition requesting an in camera hearing on whether the audit document is privileged or subject to disclosure and outlines requirements related to filing a petition. A company's failure to file a petition waives the confidentiality privilege for only the request for an in camera hearing.

blanket disability insurance; special groups (H.B. 2598) – Chapter 100

Expands eligibility for blanket disability insurance policies to include 1) the owner, operator or lessee of a means of transportation; 2) a civil defense entity; 3) a religious, charitable, recreational, educational or civic organization; 4) a publisher; 5) a restaurant, hotel, motel, resort, or innkeeper; 6) a health care provider; 7) a bank, financial vendor or similar financial institution; 8) an association of persons with a common interest or calling; and 9) a travel agent or other agency providing travel related services. The Director of the Department of Insurance may exercise discretion based on individual risk, class of risks or both when evaluating the issuance of a blanket disability insurance policy to a group substantially similar to those specified in statute.

tobacco settlement agreement (H.B. 2674) – Chapter 160

Conforms statute to comply with the tobacco Master Settlement Agreement (MSA) as follows:

Taxation – Establishes a penalty of \$100 per month for any person who fails to file a required tax return or report, with a maximum of \$500 for each return or report. Beginning July 1, 2015, requires a distributor of tobacco products, other than cigarettes, to electronically file any tax report or return by the payment date from monies immediately available for transfer, and establishes civil penalties for the failure to make a payment and file electronically. Requires the Department of Revenue (DOR) to consider tobacco taxes paid at the time of the sale, distribution or transfer of tobacco products, other than cigarettes, if a licensed distributor reports and remits the taxes on the products in accordance with statute. Specifies that sworn returns prepared and remitted by a licensed distributor constitute official indicia that tobacco taxes have been paid on such tobacco products at issue. Outlines the process for a distributor to request any refund or rebate of taxes paid on tobacco products. Establishes a deadline for a cigarette distributor to file a return for each place of business and requires any retailer of tobacco products to retain all invoices or equivalent documentation.

Disclosure of Confidential Information – Requires DOR to release confidential information to the Attorney General (AG) for purposes of determining compliance with certain laws. Additionally, DOR and the AG are required to share information regarding specified laws and disputes with certain entities. Removes the ability of DOR to disclose confidential information to the AG to determine compliance with statute regarding unauthorized providers of tobacco products.

Business Inspection – Requires any DOR inspection to begin during normal business hours of the place of inspection and stipulates that any inspection does not require a judicial warrant or the prior written consent of the wholesaler, distributor or retailer. Prohibits a business from maintaining any books, papers, invoices, records and inventories of luxuries subject to DOR inspection in a place and manner that requires a judicial warrant and requires a business that maintains such records electronically to provide access to the data for DOR inspection at its business location during normal business hours.

Licensure – Requires license applications to be accompanied by a \$25 fee for each place of business listed on the application and include all businesses where the applicant's business is conducted for the purpose of making the initial sale or distribution of tobacco products in Arizona, including any location that maintains an inventory of tobacco products. Requires a \$25 fee for each location change not currently listed on a licensee's application. Specifies that an applicant with a controlling interest in more than one business engaged in activities as a distributor must apply for a single license encompassing all such businesses and list each place of business on its application. Prohibits a licensee from transferring its license to a new owner and any court-appointed trustee or other person to obtain a license in its own name in cases of liquidation, insolvency or bankruptcy, if the business remains in operation as a distributor of tobacco products. Requires a licensee to apply for a new license if there is a change in legal entity status or legal structure of the business. Requires an applicant to display a copy of its license in a conspicuous place at each licensed location and outlines the conditions an applicant must agree to as a condition of licensure. Enumerates situations in which DOR cannot issue or renew a distributor's license, or may revoke such a license. Stipulates that any suspension, revocation or nonrenewal of a distributor's license must: 1) apply only to the place of business where the activity occurred; and 2) comply with the uniform administrative hearings statutes.

Unstamped Cigarettes – Prohibits a person from holding, storing or transporting unstamped cigarettes for sale or distribution in Arizona in any vehicle except under specified circumstances. Permits only a licensed cigarette manufacturer or importer to hold unstamped cigarettes. Retroactive to April 1, 2012, permits a licensed distributor to submit a written request to sell, distribute or transfer unstamped cigarettes to another licensed distributor and requires DOR to approve or deny the request within 10 days.

Payment for Cigarette Stamps – Clarifies that official cigarette stamps can be purchased at the current discount rates until October 1, 2014, and establishes the discount rate for cigarette stamps purchased after that date. Stipulates that any refund of or rebates on cigarette stamps requested by a licensed distributor must be issued in a specified amount. Permits a distributor to request that DOR waive the bonding requirement regarding the payment for official stamps under certain circumstances. Requires DOR to redeem unused or spoiled Arizona tax stamps if those stamps are unaffixed and purchased within two years of the date of the request for redemption and prohibits a person from selling or offering cigarettes in Arizona unless the tax has been paid as evidenced by an Arizona tax stamp.

Cigarettes Purchased on Indian Reservations – Beginning January 1, 2015, specifies that a cigarette distributor must affix tax or tax-exempt stamps, as applicable, distinguishable from any other required stamp. Specifies that this requirement applies to cigarettes purchased on an Indian reservation by an enrolled member of the governing tribe. Permits DOR to collect and administer any tribal excise tax on tobacco products imposed by an Indian tribe upon entering

into an intergovernmental agreement (IGA) or contract with the tribe, and specifies that such an IGA or contract must contain provisions for a uniform or coordinated audit procedure for the taxes imposed by the state and tribe.

Trade and Commerce – Prohibits a tobacco manufacturer from submitting supplemental documentation upon rejection of a tobacco product manufacturers certification (certification). Removes the Director of DOR (Director) from the certification process and outlines information that a nonparticipating manufacturer (NPM) must include in its certification. Specifies that an NPM's certification must certify all shipments made to a licensed tobacco distributor in Arizona, unless the NPM or its affiliate is licensed as an Arizona tobacco distributor. Requires a tobacco product manufacturer not currently listed in the state directory to submit an initial certification subject to the same requirements for annual certifications. Requires bond certifications, materials and importer declarations to be submitted as part of the initial, annual and supplemental certifications. Clarifies that each distributor must submit information to DOR in order to facilitate compliance as specifies and requires certain tobacco product manufacturers to make required escrow deposits in quarterly installments following each sales quarter in accordance with the outlined deposit schedule.

Miscellaneous – Exempts the AG and DOR from rulemaking requirements for one year and prohibits a retailer from using a vehicle as a place of business for selling tobacco products; however, the lawful delivery of tobacco products by a person who holds a valid distributor license using a vehicle that is owned, operated or contracted by that person is not prohibited. Modifies terms and definitions.

PSPRS; employer liability; death benefits (H.B. 2693) – Chapter 274

Requires the actuarial present value of the amount computed for a surviving spouse of a deceased PSPRS member who is killed in the line of duty to be directly deposited into the employer account and charged against investment earnings of the fund before those earnings are distributed to employers.

theme park districts; formation; bonds (H.B. 2694) – Chapter 275

SEE THE COMMERCE, ENERGY AND MILITARY COMMITTEE.

TPT; health sciences institutions; exemption (H.B. 2701) – Chapter 276

Defines a *qualifying health sciences educational institution* as a 501(c) nonprofit that solely provides graduate and postgraduate instruction in health sciences. Exempts a qualifying health sciences educational institution from 1) use tax; 2) transaction privilege tax (TPT) in the retail, publication and job printing classifications; and 3) municipal TPT, use, sales or similar taxation.

LEGISLATION VETOED

tax credits; STOs; preapproval; entities (S.B. 1048) – VETOED

Extends corporate tax credits for contributions made to a school tuition organization (STO) to S-Corporations and permits stockholders of S-Corporations to claim a pro rata share of the tax credit based on ownership interest, effective tax year 2014. Credit for contributions to STOs may not be claimed if any of the following apply: 1) the contribution is made for the benefit of the taxpayer's dependent; 2) a business designates a student beneficiary as a condition of the contribution; or 3) two or more taxpayers agree to designate the contribution for the benefit of each other's dependents. STOs are prohibited from awarding grants or scholarships to students who are simultaneously enrolled in a district or charter school and a qualifying school.

The Governor indicates in her veto message that the aggregate cap on the tax credits addressed by S.B. 1048 will continue to increase by 20 percent per year in perpetuity and that such growth should occur only after careful consideration by the Legislature rather than by formula. She also indicates that S.B. 1048 would allow the owner of an S-Corporation to circumvent caps for individual contributions to STOs. Finally, the Governor indicates that S.B. 1048 would be unnecessarily burdensome for the Department of Revenue to administer.

leased religious property; class nine (H.B. 2281) – VETOED

Expands the classification of class 9 properties to include property leased to nonprofit religious institutions and used primarily for religious worship. Property owned by a 501(c)(3) organization and leased to a nonprofit primarily for religious worship can be exempted from property tax by filing an affidavit and evidence of the tax exempt status of the property owner with the appropriate county assessor.

In her veto message, the Governor indicates that there is no guarantee that property owners will pass the benefit on to their tenants despite the provision in the bill that attempts to accomplish this. The Governor also states that this legislation would create significant administrative challenges for assessors by requiring the tracking of commercial property usage and leasing categories for the anticipated religious purposes. Finally, the Governor indicates that there is insufficient data to determine the size of the tax shift to homeowners and businesses that would have occurred as a result of this legislation.

income tax revisions (H.B. 2664) – VETOED

Allows a taxpayer, beginning in tax year (TY) 2014, to take an expense deduction to the amount allowed under federal law if the maximum deduction were \$500,000, reduced by the amount exceeding \$2 million, and outlines necessary calculations regarding additions to Arizona gross income for taxpayers using the business expensing provisions for and after TY 2014. Also, repeals obsolete statute regarding calculating additions and subtractions to Arizona gross income.

In her veto message, the Governor states that by enacting only one provision of the Internal Revenue Code (IRC) into Arizona law, this legislation creates an inconsistency with the state's longstanding policy to consider each year whether to conform the IRC in the context of other tax policy and budget considerations. The Governor also indicates that the \$25 million needed to enact this legislation would be better utilized to fund critical child safety functions, services and reforms.