

State of Arizona
House of Representatives
Forty-eighth Legislature
First Regular Session
2007

HOUSE BILL 2322

AN ACT

AMENDING SECTION 41-1517, ARIZONA REVISED STATUTES; AMENDING TITLE 41, CHAPTER 10, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 41-1517.01; AMENDING SECTION 42-2003, ARIZONA REVISED STATUTES; AMENDING SECTION 43-222, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2007, CHAPTER 7, SECTION 1; AMENDING SECTIONS 43-1021 AND 43-1075, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1075.01; AMENDING SECTIONS 43-1121 AND 43-1163, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 11, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1163.01; RELATING TO MOTION PICTURE PRODUCTION TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Section 41-1517, Arizona Revised Statutes, is amended to
3 read:
4 41-1517. Motion picture production tax incentives; duties;
5 definitions
6 A. From and after December 31, 2005 through December 31, 2010, the
7 department of commerce shall qualify motion picture production companies that
8 produce one or more motion pictures in this state for motion picture
9 production tax incentives, subject to the following requirements and
10 conditions:
11 1. EXCEPT AS PROVIDED IN SUBSECTION K OF THIS SECTION, a motion
12 picture production company must ~~incur production costs in this state of at~~
13 ~~least two hundred fifty thousand dollars in producing one or more motion~~
14 ~~pictures during each twelve month period for which it is qualified for the~~
15 ~~tax incentives~~ SPEND AT LEAST TWO HUNDRED FIFTY THOUSAND DOLLARS TOWARD
16 PRODUCTION COSTS IN THIS STATE PRODUCING EACH MOTION PICTURE.
17 2. For the purpose of this section, production costs are limited to
18 and subject to the following conditions:
19 (a) Salaries and other compensation for talent, management and labor
20 paid to residents of this state, as defined by section 43-104.
21 (b) A story and scenario to be used for a motion picture.
22 (c) Set construction and operations, wardrobe, props, accessories and
23 related services in this state. Expenses paid for construction contracts are
24 limited to contractors who are licensed under title 32, chapter 10.
25 (d) Photography, sound synchronization, lighting and related costs
26 incurred in this state.
27 (e) Editing and related services performed in this state.
28 (f) Rental of facilities and equipment in this state.
29 (g) Catered food, drink and condiment purchased in this state.
30 (h) Other direct in-state costs of producing the motion picture,
31 pursuant to rules adopted by the department of revenue that follow generally
32 accepted accounting standards for the motion picture industry.
33 (i) Payments for penalties and fines do not qualify as production
34 costs.
35 (j) EXPENSES INCURRED BEFORE THE DATE OF NOTICE OF PREAPPROVAL UNDER
36 SUBSECTION D OF THIS SECTION DO NOT QUALIFY AS PRODUCTION COSTS.
37 3. A motion picture production company or its authorized payroll
38 service company must employ residents of this state in its production
39 activities as follows:
40 (a) In 2006, at least twenty-five per cent of full-time employees
41 working in this state must be residents of this state.
42 (b) In 2007, at least thirty-five per cent of full-time employees
43 working in this state must be residents of this state.
44 (c) In 2008 and every subsequent taxable year, at least fifty per cent
45 of full-time employees working in this state must be residents of this state.

1 4. A motion picture production company must submit a completed
2 application pursuant to subsection ~~B- C or I~~ of this section. An application
3 is complete on receipt of all requested information.

4 5. A motion picture production company must include in the credits for
5 each motion picture, other than a commercial advertisement OR MUSIC VIDEO, an
6 acknowledgement that the production was filmed in ~~this state~~ ARIZONA.

7 B. ONLY A MOTION PICTURE PRODUCTION COMPANY THAT DEMONSTRATES THAT IT
8 HAS THE LAWFUL RIGHT TO PRODUCE A PARTICULAR PRODUCTION MAY APPLY FOR
9 QUALIFICATION UNDER THIS SECTION WITH RESPECT TO THAT PRODUCTION.

10 ~~B-~~ C. A motion picture production company initially applying for
11 qualification under this section must report the following to the department
12 of commerce on a form and in a manner prescribed by the department, with the
13 cooperation of the department of revenue:

14 1. The name, address, telephone number and web site of the motion
15 picture production company.

16 2. The name and address of an individual who will maintain records of
17 expenditures in this state.

18 3. The projected first preproduction date and last production date in
19 this state.

20 4. The production office address and office telephone number in this
21 state.

22 5. The estimated total budget of the production.

23 6. The estimated total expenditures in this state.

24 7. The estimated total percentage of the production taking place in
25 this state.

26 8. The estimated level of employment of residents of this state in the
27 cast and crew.

28 9. A script, including a synopsis, the proposed director and a
29 preliminary list of the cast and producer, EXCEPT THAT, WITH RESPECT TO A
30 TELEVISION SERIES, OTHER THAN A PILOT PRODUCTION, IN LIEU OF A SCRIPT THE
31 APPLICANT MUST INCLUDE:

32 (a) A SYNOPSIS OF THE GENERAL NATURE OF THE SERIES.

33 (b) A DESCRIPTION OF THE CHARACTERS AND THE INTENDED NATURE OF THEIR
34 INTERACTION WITH EACH OTHER.

35 (c) A DESCRIPTION OF THE LOCATIONS.

36 (d) A DESCRIPTION OF THE SETS.

37 (e) THE INTENDED DISTRIBUTION OR BROADCAST MEDIUM WITH SPECIFIC
38 TELEVISION CHANNELS, IF KNOWN.

39 10. ~~A signed affirmation from the applicant~~ AN AFFIRMATION SIGNED BY
40 ANY PERSON WHO WILL BE CREDITED ON SCREEN AS THE PRODUCER OR PRODUCERS OF THE
41 MOTION PICTURE, NOT INCLUDING THE EXECUTIVE PRODUCERS, ASSOCIATE PRODUCERS,
42 ASSISTANT PRODUCERS OR LINE PRODUCERS, that:

43 (a) The motion picture production company agrees to furnish records of
44 expenditures in this state to the department of revenue on request.

1 (b) Any items purchased with a certification issued under section
2 42-5009, subsection H are intended for use by the applicant directly in
3 motion picture production.

4 ~~C.~~ D. The department of commerce shall review all applications within
5 thirty days after submission OF A COMPLETE APPLICATION pursuant to subsection
6 B- C or I of this section to determine whether the motion picture production
7 company satisfies all of the criteria provided in subsection A of this
8 section and shall establish the process by which the department qualifies and
9 preapproves a company for motion picture production tax incentives. This
10 process shall preapprove a company for motion picture production tax
11 incentives based on priority placement established by the date that such
12 motion picture production company filed its initial application for
13 qualification with the department.

14 ~~D. E. If a company fails to begin production within four months after~~
15 ~~the department preapproves the company or fails to provide notice pursuant to~~
16 ~~this subsection, the preapproval lapses, the application is void and the~~
17 ~~amount of the preapproved incentives does not apply to the dollar limit~~
18 ~~prescribed by subsection E of this section for that year.~~ The department of
19 commerce may conduct a site visit to verify that production has begun.
20 Within ~~four months~~ NINETY DAYS after the department preapproves the company's
21 initial application, the company must submit notice to the department of
22 ~~commerce~~ that production has begun and provide at least one of the following:

- 23 1. A copy of a contract, loan out agreement or deal memo with a
24 cameraman and crew.
- 25 2. A copy of the crew call sheet for the first day of production.
- 26 3. Evidence that residents of this state have been paid a total of at
27 least five thousand dollars for work on the preapproved motion picture.
- 28 4. A copy of a contract or agreement directly attributable to the
29 preapproved motion picture.

30 F. PREAPPROVAL BY THE DEPARTMENT OF COMMERCE UNDER SUBSECTION D OF
31 THIS SECTION LAPSES, THE APPLICATION IS VOID AND THE AMOUNT OF THE
32 PREAPPROVED INCENTIVES DOES NOT APPLY AGAINST THE DOLLAR LIMIT PRESCRIBED BY
33 SUBSECTION J OF THIS SECTION IF, WITHIN NINETY DAYS AFTER THE DEPARTMENT
34 PREAPPROVES THE COMPANY, THE COMPANY FAILS TO PROVIDE DOCUMENTATION OF
35 EITHER:

- 36 1. ITS EXPENDITURE IN THIS STATE OF THE LESSER OF:
 - 37 (a) TEN PER CENT OF THE ESTIMATED TOTAL STATE BUDGET OF THE
38 PRODUCTION.
 - 39 (b) TWO HUNDRED FIFTY THOUSAND DOLLARS.
- 40 2. A COMPLETION BOND, EQUAL TO THE ESTIMATED TOTAL BUDGET OF THE
41 PRODUCTION, FOR THE PRODUCTION OF THE MOTION PICTURE FOR WHICH THE COMPANY
42 WAS PREAPPROVED. FOR THE PURPOSES OF THIS PARAGRAPH, "COMPLETION BOND" MEANS
43 AN EXECUTED WRITTEN CONTRACT, ISSUED BY AN INSURANCE COMPANY WITH AN
44 INSURANCE INDUSTRY RATING OF B+ OR BETTER BY A.M. BEST COMPANY GUARANTYING TO
45 THE FINANCIERS OF THE PROJECT THAT IT WILL BE COMPLETED ACCORDING TO THE

1 TERMS OF THE PREAPPROVED APPLICATION SUBMITTED BY THE PRODUCTION COMPANY IN
2 ITS APPLICATION.

3 G. THE PREAPPROVED AMOUNT APPLIES AGAINST THE DOLLAR LIMIT PRESCRIBED
4 BY SUBSECTION J OF THIS SECTION FOR THE YEAR IN WHICH THE APPLICATION WAS
5 SUBMITTED REGARDLESS OF WHETHER THE INITIAL PREAPPROVAL PERIOD EXTENDS INTO
6 THE FOLLOWING YEAR OR YEARS. BEFORE THE EXPIRATION OF THE INITIAL
7 PREAPPROVAL OR REQUALIFICATION PERIOD, A COMPANY MAY VOLUNTARILY RELINQUISH
8 UNUSED CREDIT AMOUNTS.

9 H. THE DEPARTMENT OF COMMERCE SHALL REALLOCATE THE AMOUNT OF CREDITS
10 THAT IS VOLUNTARILY RELINQUISHED UNDER SUBSECTION G OF THIS SECTION, THAT
11 LAPSE UNDER SUBSECTION F OF THIS SECTION OR THAT LAPSE UNDER SUBSECTION O OF
12 THIS SECTION. THE REALLOCATION SHALL BE TO OTHER MOTION PICTURE PRODUCTION
13 COMPANIES THAT APPLIED IN THE ORIGINAL CREDIT YEAR BASED ON PRIORITY
14 PLACEMENT. THE AMOUNT OF THE REALLOCATED CREDITS SHALL CONTINUE TO APPLY
15 AGAINST THE DOLLAR LIMIT OF THE ORIGINAL CREDIT YEAR REGARDLESS OF THE YEAR
16 IN WHICH THE REALLOCATION OCCURS. IF FOR ANY YEAR AN UNUSED BALANCE OCCURS
17 IN THE INCOME TAX CREDITS AUTHORIZED UNDER THE DOLLAR LIMIT PRESCRIBED BY
18 SUBSECTION J OF THIS SECTION:

19 1. THE BALANCE SHALL BE ALLOCATED TO MOTION PICTURE PRODUCTION
20 COMPANIES THAT SUCCESSFULLY APPEAL THE DENIAL OF APPROVAL UNDER THIS SECTION
21 OR SECTION 41-1517.01. ANY AMOUNT OF INCOME TAX CREDITS DUE TO SUCCESSFUL
22 APPEALS THAT ARE NOT PAID FROM AN UNUSED BALANCE IN ANY YEAR SHALL BE PAID
23 AGAINST THE DOLLAR LIMIT ALLOWED BY SUBSECTION J OF THIS SECTION IN THE
24 FOLLOWING YEAR.

25 2. ANY REMAINING UNUSED BALANCE SHALL BE REALLOCATED FOR THE PURPOSES
26 OF THIS SECTION IN THE FOLLOWING YEAR.

27 I. BEGINNING WITH THE TAX CREDITS ALLOCATED FOR 2006 PURSUANT TO
28 SUBSECTION J OF THIS SECTION, AN APPROVED CREDIT OFFSETS TAX LIABILITY FOR
29 THE TAXABLE YEAR FOR WHICH THE CREDIT WAS ORIGINALLY ALLOCATED OR ANY
30 SUBSEQUENT TAXABLE YEAR WITHIN THE APPLICABLE CARRY FORWARD PERIOD PURSUANT
31 TO SECTION 43-1075, SUBSECTION G OR SECTION 43-1163, SUBSECTION G. THE
32 CREDITS MUST BE CLAIMED ON A TIMELY FILED ORIGINAL INCOME TAX RETURN,
33 INCLUDING EXTENSIONS.

34 ~~E.~~ J. SUBJECT TO THE REQUIREMENTS OF SECTION 41-1517.01 AND
35 SUBSECTIONS K AND U OF THIS SECTION, the department OF COMMERCE shall not
36 preapprove income tax credits exceeding a total of:

- 37 1. Thirty million dollars ~~in~~ FOR 2006.
- 38 2. Forty million dollars ~~in~~ FOR 2007.
- 39 3. Fifty million dollars ~~in~~ FOR 2008.
- 40 4. Sixty million dollars ~~in~~ FOR 2009.
- 41 5. From and after December 31, 2009, seventy million dollars ~~in~~ FOR a
42 single year.

43 ~~6. Five million dollars for an individual motion picture application.~~
44 6. FIVE MILLION DOLLARS FOR AN INDIVIDUAL MOTION PICTURE APPLICATION
45 IN 2007.

- 1 7. SEVEN MILLION DOLLARS FOR AN INDIVIDUAL MOTION PICTURE APPLICATION
2 IN 2008.
- 3 8. EIGHT MILLION DOLLARS FOR AN INDIVIDUAL MOTION PICTURE APPLICATION
4 IN 2009.
- 5 9. FROM AND AFTER DECEMBER 31, 2009, NINE MILLION DOLLARS FOR AN
6 INDIVIDUAL MOTION PICTURE APPLICATION.
- 7 K. BEGINNING IN 2008, THE FOLLOWING PROVISIONS APPLY WITH RESPECT TO
8 COMMERCIAL ADVERTISEMENT AND MUSIC VIDEO PRODUCTION:
- 9 1. FIVE PER CENT OF THE MAXIMUM DOLLAR AMOUNT OF INCOME TAX CREDITS
10 PRESCRIBED FOR ANY YEAR BY SUBSECTION J OF THIS SECTION IS RESERVED FOR USE
11 WITH RESPECT TO COMMERCIAL ADVERTISEMENT AND MUSIC VIDEO PRODUCTION.
- 12 2. A COMMERCIAL ADVERTISEMENT OR MUSIC VIDEO PRODUCTION COMPANY MAY
13 APPLY FOR QUALIFICATION UNDER SUBSECTION C OF THIS SECTION BEFORE THE COMPANY
14 REACHES THE MINIMUM EXPENDITURE THRESHOLD REQUIREMENTS OF SUBSECTION A,
15 PARAGRAPH 1 OF THIS SECTION.
- 16 3. IN LIEU OF A SCRIPT UNDER SUBSECTION C, PARAGRAPH 9 OF THIS
17 SECTION, THE APPLICANT MUST SUBMIT A SYNOPSIS OR STORYBOARD THAT:
- 18 (a) IDENTIFIES THE PRODUCT, SERVICE, PERSON OR EVENT FOR A COMMERCIAL
19 ADVERTISEMENT OR THE ARTIST AND SONG FOR A MUSIC VIDEO.
- 20 (b) DESCRIBES THE GENERAL CONTENT OR MESSAGE TO BE CONVEYED.
- 21 (c) DESCRIBES THE LOCATION OR LOCATIONS.
- 22 (d) DESCRIBES THE SETS.
- 23 (e) DESCRIBES THE INTENDED DISTRIBUTION OR MEDIUM AND SPECIFIC
24 CHANNELS, IF KNOWN.
- 25 4. THE DEPARTMENT MUST REVIEW THE COMPLETED APPLICATION WITHIN FIFTEEN
26 BUSINESS DAYS.
- 27 5. EXPENSES INCURRED BEFORE THE DATE OF SUBMISSION OF A COMPLETED
28 APPLICATION UNDER SUBSECTION C OF THIS SECTION DO NOT QUALIFY AS PRODUCTION
29 COSTS.
- 30 6. THE DEPARTMENT SHALL ALLOCATE THE INCOME TAX CREDIT INCENTIVES
31 BASED ON PRIORITY PLACEMENT ESTABLISHED BY THE DATE THAT THE COMPANY FILES
32 ITS APPLICATION AND BASED ON THE PERCENTAGE OF ESTIMATED TOTAL EXPENDITURES
33 IN THIS STATE ALLOWED AS A CREDIT UNDER SECTION 43-1075 OR 43-1163.
- 34 7. WITHIN SIXTY DAYS AFTER APPLYING WITH THE DEPARTMENT UNDER
35 SUBSECTION C OF THIS SECTION, A COMPANY THAT IS PREAPPROVED FOR A SPECIFIC
36 PRODUCTION MUST NOTIFY AND PROVIDE DOCUMENTATION OF EXPENDITURES TO THE
37 DEPARTMENT OF THE TOTAL AMOUNT OF ELIGIBLE PRODUCTION COSTS ASSOCIATED WITH
38 THE PRODUCTION.
- 39 8. THE COMPANY IS NOT ELIGIBLE FOR INCOME TAX CREDIT INCENTIVES UNTIL
40 THE COMPANY'S ELIGIBLE PRODUCTION EXPENDITURES REACH TWO HUNDRED FIFTY
41 THOUSAND DOLLARS IN A PERIOD OF TWELVE CONSECUTIVE MONTHS. WHEN THE COMPANY
42 REACHES THAT THRESHOLD, THE COMPANY MAY APPLY TO THE DEPARTMENT FOR APPROVAL
43 OF THE INCOME TAX CREDIT INCENTIVES PURSUANT TO SUBSECTION P OF THIS SECTION.
44 APPLICATIONS FOR APPROVAL OF INCOME TAX CREDIT INCENTIVES MAY NOT BE
45 SUBMITTED BY THE SAME COMPANY MORE FREQUENTLY THAN ONCE A CALENDAR MONTH.

1 9. NOTWITHSTANDING ANY OTHER PROVISION OF THIS SECTION, THE DEPARTMENT
2 OF COMMERCE SHALL ADOPT RULES AND PRESCRIBE FORMS AND PROCEDURES AS NECESSARY
3 FOR THE PURPOSES OF THIS SUBSECTION.

4 ~~F.~~ L. EXCEPT FOR APPLICATIONS WITH RESPECT TO COMMERCIAL
5 ADVERTISEMENT AND MUSIC VIDEO PRODUCTION UNDER SUBSECTION K OF THIS SECTION,
6 after October 31 of each year, if the department has preapproved the maximum
7 calendar year tax credit amount pursuant to subsection ~~E~~ J of this section,
8 the department may accept initial applications for the next calendar year.
9 The preapproval of any application pursuant to this subsection shall not be
10 effective prior to the first business day of the following calendar year.
11 THE DEPARTMENT MAY ACCEPT INITIAL APPLICATIONS WITH RESPECT TO COMMERCIAL
12 ADVERTISEMENT AND MUSIC VIDEO PRODUCTION UNDER SUBSECTION K OF THIS SECTION
13 ONLY DURING THE CALENDAR YEAR IN WHICH THE CREDITS WOULD BE ALLOTTED.

14 ~~G.~~ M. SUBJECT TO THE PROVISIONS OF SUBSECTION O OF THIS SECTION, the
15 department of commerce shall deny an application submitted ON COMPLETION OF
16 THE PRODUCTION pursuant to subsection ~~B-or-I~~ O of this section if it
17 determines that:

18 1. The motion picture production company does not meet all of the
19 established criteria provided in subsection A of this section.

20 2. The production would constitute an obscene motion picture film or
21 obscene pictorial publication under title 12, chapter 7, article 1.1.

22 3. The production depicts sexual activity as defined in title 13,
23 chapter 35.

24 4. The production would constitute sexual exploitation of a minor or
25 commercial sexual exploitation of a minor under title 13, chapter 35.1.

26 ~~H.~~ N. On a determination by the department of commerce that a motion
27 picture production company qualifies for motion picture production tax
28 incentives, the department shall issue the company a written letter of
29 qualification and transmit a copy of the letter to the department of revenue.
30 BEGINNING FROM AND AFTER DECEMBER 31, 2007, a letter of qualification is
31 effective for ~~twelve~~ TWENTY-FOUR consecutive months as stated in the letter.

32 ~~I. A motion picture production company that applies for~~
33 ~~requalification must continue to meet all of the eligibility criteria~~
34 ~~provided under subsection A of this section and must provide the department~~
35 ~~of commerce with updated information on the location, ownership and~~
36 ~~operations of the business. For purposes of efficiency and reducing~~
37 ~~duplicative or redundant reporting duties, the department may establish a~~
38 ~~streamlined process for requalification.~~

39 ~~J.~~ O. Upon completion of the motion picture production, a motion
40 picture production company that qualifies for the motion picture tax
41 incentives shall ~~certify~~ APPLY to the department IN WRITING FOR APPROVAL OF
42 INCOME TAX CREDITS, SUBMIT A VIEWABLE COPY OF THE MOTION PICTURE AND CERTIFY
43 the total amount of eligible production costs associated with the project
44 incurred from and after December 31, 2005. From and after June 30, 2006, the
45 department shall provide approval to a motion picture production company that

1 it has met the eligibility requirements of this section and shall notify the
2 department of revenue that ~~a~~ THE motion picture production company may claim
3 the tax credits pursuant to sections 43-1075 and 43-1163. If the eligible
4 production costs actually ~~incurred~~ SPENT are less than the amount preapproved
5 for income tax credits, the preapproved amount not incurred lapses and does
6 not apply ~~to~~ AGAINST the dollar limit prescribed by subsection ~~E~~ J of this
7 section for that year.

8 P. A MOTION PICTURE PRODUCTION COMPANY MAY APPLY FOR POSTAPPROVAL OF
9 THE PRODUCTION BEFORE A VIEWABLE COPY OF THE PRODUCTION IS AVAILABLE. TO DO
10 SO, THE COMPANY MUST SUBMIT WITH ITS APPLICATION A LETTER OF CREDIT, PAYABLE
11 TO THE DEPARTMENT OF REVENUE, PROVIDING THAT WITHIN TWO BUSINESS DAYS AFTER
12 THE ISSUER RECEIVES A WRITTEN DETERMINATION FROM THE DEPARTMENT OF COMMERCE
13 THAT THE PRODUCTION FAILS TO QUALIFY FOR THE TAX CREDITS THE ISSUER WILL PAY
14 TO THE DEPARTMENT OF REVENUE THE FULL FACE VALUE OF THE INCOME TAX CREDITS IN
15 THE APPLICATION. IF THE DEPARTMENT OF REVENUE DRAWS ON THE LETTER OF CREDIT,
16 THE MONIES SHALL BE TRANSFERRED TO AND HELD IN AN INTEREST BEARING ACCOUNT
17 PENDING THE FINAL OUTCOME OF AN APPEAL, IF ANY. THE LETTER OF CREDIT MAY BE
18 RELEASED ON THE DETERMINATION BY THE DEPARTMENT OF COMMERCE THAT THE
19 COMPLETED PRODUCTION QUALIFIES FOR THE TAX CREDITS.

20 Q. IF A PREAPPROVED MOTION PICTURE PRODUCTION COMPANY FAILS TO
21 UNDERTAKE PRODUCTION, AS DESCRIBED IN SUBSECTION F OF THIS SECTION, AND ALSO
22 FAILS TO VOLUNTARILY RELINQUISH THE UNUSED CREDIT AMOUNTS FOR REALLOCATION BY
23 THE DEPARTMENT AS PROVIDED BY SUBSECTION G OF THIS SECTION WITHIN THE
24 NINETY-DAY PERIOD, THE COMPANY AND ALL PERSONS SIGNING THE APPLICATION FOR
25 PREAPPROVAL ARE DISQUALIFIED FROM RECEIVING, OR PARTICIPATING IN ANY MOTION
26 PICTURE PRODUCTION COMPANY THAT APPLIES FOR OR RECEIVES, TAX INCENTIVES
27 PURSUANT TO THIS SECTION FOR THREE YEARS AFTER THE ORIGINAL APPLICATION.

28 ~~K~~. R. The department of commerce, with the cooperation of the
29 department of revenue, shall adopt rules and publish and prescribe forms and
30 procedures as necessary to effectuate the purposes of this section.

31 ~~L~~. S. Any information gathered from motion picture production
32 companies for the purposes of this section shall be considered confidential
33 taxpayer information and shall be disclosed only as provided in section
34 42-2003, subsection B, paragraph 12, EXCEPT THAT THE DEPARTMENT SHALL PUBLISH
35 THE FOLLOWING INFORMATION IN ITS ANNUAL REPORT:

36 1. THE NAME OF EACH MOTION PICTURE PRODUCTION COMPANY AND
37 INFRASTRUCTURE APPLICANT AND THE AMOUNT OF INCOME TAX CREDITS PREAPPROVED FOR
38 EACH PRODUCTION AND INFRASTRUCTURE PROJECT.

39 2. THE AMOUNT OF CREDITS APPROVED WITH RESPECT TO EACH PRODUCTION.

40 ~~M~~. T. The department of commerce shall:

41 1. Keep annual records of the information provided on applications for
42 motion picture production tax incentives. These records shall reflect a
43 percentage comparison of the annual amount of monies exempted or credited to
44 qualifying motion picture production companies to the estimated amount of

1 monies spent on in-state production costs by motion picture production
2 companies.

3 2. Maintain annual data on growth in Arizona-based motion picture
4 industry companies and motion picture industry employment and wages.

5 3. Not later than ~~December 1~~ APRIL 30 of each year, prepare and
6 publish a report summarizing the information collected pursuant to this
7 subsection. The department shall make copies of the annual report available
8 to the public on request.

9 U. SUBJECT TO ANNUAL LEGISLATIVE AUTHORIZATION, THE AMOUNT OF ONE
10 HUNDRED EIGHTY THOUSAND DOLLARS FROM THE DOLLAR AMOUNT OF INCOME TAX CREDITS
11 UNDER SUBSECTION J OF THIS SECTION IS ALLOCATED EACH YEAR TO THE DEPARTMENT
12 OF COMMERCE FOR UP TO TWO FULL-TIME EQUIVALENT POSITIONS DEDICATED SOLELY FOR
13 THE PURPOSES OF THIS SECTION AND SECTION 41-1517.01. IF THE INCOME TAX
14 CREDITS TERMINATE PURSUANT TO SUBSECTION A OF THIS SECTION AND SECTION
15 41-1517.01, SUBSECTION A, THE AUTHORIZATION UNDER THIS SUBSECTION AND ANY
16 POSITIONS DEDICATED FOR THOSE PURPOSES ALSO TERMINATE.

17 ~~N.~~ V. For the purposes of this section:

18 1. "COMMERCIAL ADVERTISEMENT" MEANS AN ADVERTISING MESSAGE DESIGNED
19 FOR DELIVERY THROUGH EITHER:

20 (a) A MOTION PICTURE FILM OR VIDEO MEDIUM TO ATTRACT THE ATTENTION OF
21 CONSUMERS OR INFLUENCE CONSUMERS' FEELINGS TOWARD A PARTICULAR PRODUCT,
22 SERVICE, EVENT OR CAUSE.

23 (b) STILL PHOTOGRAPHY THAT IS USED IN NATIONAL OR INTERNATIONAL PRINT
24 MEDIA TO ATTRACT THE ATTENTION OF CONSUMERS OR INFLUENCE CONSUMERS' FEELINGS
25 TOWARD A PARTICULAR PRODUCT, SERVICE EVENT OR CAUSE.

26 ~~1.~~ 2. "Motion picture" means a single medium or multimedia program,
27 including a commercial ~~advertising message~~ ADVERTISEMENT, MUSIC VIDEO OR
28 TELEVISION SERIES, that:

29 (a) Is created by production activities conducted in whole or in part
30 in this state.

31 (b) Can be viewed or reproduced.

32 (c) Is intended for commercial distribution or licensing in the
33 delivery medium used.

34 MOTION PICTURE DOES NOT INCLUDE ANY PRODUCTION FEATURING ACTUAL NEWS, CURRENT
35 EVENTS, WEATHER, LOCALLY PRODUCED AND LOCALLY BROADCAST TELEVISION
36 PRODUCTIONS, FINANCIAL MARKET REPORTS, CONCERTS, INTERNET BROADCASTS, TALK
37 SHOWS AND INTERVIEWS, GAME SHOWS, SPORTING EVENTS, AWARD OR OTHER GALA
38 EVENTS, A PRODUCTION WHOSE SOLE PURPOSE IS FUNDRAISING, A PRODUCTION USED FOR
39 CORPORATE OR ORGANIZATIONAL TRAINING OR IN-HOUSE CORPORATE ADVERTISING OR
40 OTHER SIMILAR PRODUCTION ACTIVITIES.

41 ~~2.~~ 3. "Motion picture production company" OR "PRODUCTION COMPANY"
42 means any person primarily engaged in the business of producing motion
43 pictures and that has a physical business office and bank account in this
44 state.

1 (a) TWO HUNDRED FIFTY THOUSAND DOLLARS IN THIS STATE DIRECTLY ON
2 PROJECT EXPENSES WITHIN NINETY DAYS.

3 (b) AN ADDITIONAL ONE MILLION DOLLARS IN THIS STATE DIRECTLY ON
4 PROJECT EXPENSES WITHIN TWELVE MONTHS.

5 (c) A TOTAL OF AT LEAST FIVE MILLION DOLLARS IN THIS STATE DIRECTLY ON
6 PROJECT EXPENSES WITHIN THIRTY-SIX MONTHS.

7 3. IF THE APPLICATION IS FOR SUPPORT AND AUGMENTATION FACILITIES,
8 AFTER THE DATE THE DEPARTMENT OF COMMERCE APPROVES THE APPLICATION UNDER
9 SUBSECTION B OF THIS SECTION, THE APPLICANT MUST SPEND AT LEAST:

10 (a) TWO HUNDRED FIFTY THOUSAND DOLLARS IN THIS STATE DIRECTLY ON
11 PROJECT EXPENSES WITHIN NINETY DAYS.

12 (b) A TOTAL OF AT LEAST ONE MILLION DOLLARS IN THIS STATE DIRECTLY ON
13 PROJECT EXPENSES WITHIN THIRTY-SIX MONTHS.

14 B. WITHIN THIRTY DAYS AFTER SUBMISSION, THE DEPARTMENT OF COMMERCE
15 SHALL REVIEW EACH COMPLETE APPLICATION TO DETERMINE WHETHER THE APPLICANT
16 SATISFIES ALL OF THE CRITERIA REQUIRED BY THIS SECTION. THE DEPARTMENT MAY
17 CONDUCT A SITE VISIT AS PART OF THE REVIEW PROCESS. THIS PROCESS SHALL
18 APPROVE AN APPLICANT FOR TAX CREDITS UNDER THIS SECTION BASED ON:

19 1. PRIORITY PLACEMENT FOR CREDITS UNDER THIS SECTION ESTABLISHED BY
20 THE DATE THE APPLICANT FILED ITS INITIAL APPLICATION UNDER SUBSECTION A OF
21 THIS SECTION.

22 2. THE AVAILABILITY OF TAX CREDIT AMOUNTS UNDER THE DOLLAR LIMITS
23 PRESCRIBED BY SUBSECTION C OF THIS SECTION.

24 C. SUBJECT TO THE LIMITS PRESCRIBED IN SECTION 41-1517, SUBSECTION J,
25 THE DEPARTMENT OF COMMERCE SHALL NOT CERTIFY INCOME TAX CREDITS UNDER THIS
26 SECTION, COMPUTED AS FIFTEEN PER CENT OF THE TOTAL BASE INVESTMENT, EXCEEDING
27 A TOTAL OF:

28 1. FIVE MILLION DOLLARS FOR SOUNDSTAGE PROJECTS INITIALLY CERTIFIED IN
29 2008.

30 2. IF NO SOUNDSTAGE PROJECT WAS INITIALLY CERTIFIED IN 2008, FIVE
31 MILLION DOLLARS FOR SOUNDSTAGE PROJECTS INITIALLY CERTIFIED IN 2009.

32 3. IF AT LEAST ONE SOUNDSTAGE PROJECT WAS INITIALLY CERTIFIED IN 2008:

33 (a) FIVE MILLION DOLLARS FOR SOUNDSTAGE PROJECTS INITIALLY CERTIFIED
34 IN 2009.

35 (b) SEVEN MILLION DOLLARS FOR SUPPORT AND AUGMENTATION FACILITIES
36 INITIALLY CERTIFIED IN 2009 THAT ARE ASSOCIATED WITH CERTIFIED SOUNDSTAGE
37 PROJECTS.

38 4. IF NO SOUNDSTAGE PROJECT WAS INITIALLY CERTIFIED IN 2008 OR 2009,
39 FIVE MILLION DOLLARS FOR SOUNDSTAGE PROJECTS INITIALLY CERTIFIED IN 2010.

40 5. IF ONLY ONE SOUNDSTAGE PROJECT WAS INITIALLY CERTIFIED IN 2008 OR
41 2009:

42 (a) FIVE MILLION DOLLARS FOR SOUNDSTAGE PROJECTS INITIALLY CERTIFIED
43 IN 2010.

1 (b) NINE MILLION DOLLARS FOR SUPPORT AND AUGMENTATION FACILITIES
2 INITIALLY CERTIFIED IN 2010 THAT ARE ASSOCIATED WITH THE CERTIFIED SOUNDSTAGE
3 PROJECT.
4 6. IF MORE THAN ONE SOUNDSTAGE PROJECT WAS INITIALLY CERTIFIED IN 2008
5 OR 2009, OR BOTH:
6 (a) FIVE MILLION DOLLARS FOR SOUNDSTAGE PROJECTS INITIALLY CERTIFIED
7 IN 2010.
8 (b) NINE MILLION DOLLARS FOR SUPPORT AND AUGMENTATION FACILITIES
9 INITIALLY CERTIFIED IN 2010 THAT ARE ASSOCIATED WITH CERTIFIED SOUNDSTAGE
10 PROJECTS.
11 7. THREE MILLION DOLLARS FOR A SUPPORT AND AUGMENTATION FACILITIES
12 PROJECT.
13 D. AFTER OCTOBER 31 OF EACH YEAR, IF THE DEPARTMENT HAS PREAPPROVED
14 THE MAXIMUM DOLLAR AMOUNT OF INCOME TAX CREDITS UNDER SUBSECTION C OF THIS
15 SECTION FOR THE CALENDAR YEAR, THE DEPARTMENT MAY ACCEPT INITIAL APPLICATIONS
16 FOR THE NEXT CALENDAR YEAR. THE PREAPPROVAL OF ANY APPLICATION PURSUANT TO
17 THIS SUBSECTION IS NOT EFFECTIVE BEFORE THE FIRST BUSINESS DAY OF THE
18 FOLLOWING CALENDAR YEAR.
19 E. PREAPPROVAL BY THE DEPARTMENT OF COMMERCE UNDER SUBSECTION B OF
20 THIS SECTION LAPSES, THE APPLICATION IS VOID AND THE AMOUNT OF THE
21 PREAPPROVED INCENTIVES DOES NOT APPLY AGAINST THE DOLLAR LIMIT PRESCRIBED BY
22 SUBSECTION C OF THIS SECTION IF:
23 1. WITHIN NINETY DAYS AFTER THE DEPARTMENT PREAPPROVES THE COMPANY,
24 THE COMPANY FAILS TO PROVIDE DOCUMENTATION OF:
25 (a) ITS EXPENDITURE IN THIS STATE OF THE LESSER OF:
26 (i) TEN PER CENT OF THE ESTIMATED TOTAL BASE INVESTMENT AMOUNT.
27 (ii) TWO HUNDRED FIFTY THOUSAND DOLLARS.
28 (b) A SURETY BOND EQUAL TO THE ESTIMATED TOTAL BASE INVESTMENT AMOUNT
29 FOR WHICH THE COMPANY WAS PREAPPROVED.
30 2. FOR SOUNDSTAGE PROJECTS, WITHIN ONE YEAR AFTER THE DEPARTMENT
31 PREAPPROVES THE COMPANY, THE COMPANY FAILS TO PROVIDE DOCUMENTATION OF:
32 (a) TOTAL EXPENDITURE IN THIS STATE OF ONE MILLION TWO HUNDRED FIFTY
33 THOUSAND DOLLARS.
34 (b) A SURETY BOND EQUAL TO THE ESTIMATED TOTAL BASE INVESTMENT AMOUNT
35 FOR WHICH THE COMPANY WAS PREAPPROVED.
36 F. ON COMPLETION OF THE MOTION PICTURE INFRASTRUCTURE PROJECT, AN
37 APPLICANT THAT HAS BEEN PREAPPROVED FOR INCOME TAX CREDITS MUST APPLY TO THE
38 DEPARTMENT IN WRITING FOR APPROVAL OF THE TOTAL BASE INVESTMENT IN THE
39 PROJECT. IF THE APPLICANT HAS MET THE ELIGIBILITY REQUIREMENTS OF THIS
40 SECTION, THE DEPARTMENT SHALL:
41 1. APPROVE THE TOTAL BASE INVESTMENT AMOUNT, BUT THE CALCULATED INCOME
42 TAX CREDIT SHALL NOT EXCEED THE PREAPPROVED AMOUNT UNDER THIS SECTION.
43 2. NOTIFY THE DEPARTMENT OF REVENUE THAT THE APPLICANT MAY CLAIM THE
44 INCOME TAX CREDITS PURSUANT TO SECTION 43-1075.01 OR 43-1163.01 IN THE AMOUNT
45 DETERMINED UNDER PARAGRAPH 1 OF THIS SUBSECTION.

1 G. THE COMPANY AND ALL PERSONS SIGNING THE APPLICATION FOR PREAPPROVAL
2 MAY BE DISQUALIFIED FROM RECEIVING FUTURE TAX CREDITS PURSUANT TO THIS
3 SECTION IF, WITHIN EIGHTEEN MONTHS AFTER THE DATE OF POSTAPPROVAL UNDER
4 SUBSECTION F OF THIS SECTION, THE APPLICANT FAILS TO SUBMIT A REPORT TO THE
5 DEPARTMENT THAT INCLUDES:

6 1. A LIST OF ACTIVITIES AND PRODUCTIONS CONDUCTED AT THE PROJECT IN
7 THE TWELVE MONTHS FOLLOWING POSTAPPROVAL.

8 2. THE AMOUNT OF ANY ADDITIONAL CAPITAL INVESTMENT.

9 3. ANY CHANGES TO OR IMPROVEMENTS MADE TO THE PROJECT SINCE THE DATE
10 OF POSTAPPROVAL.

11 H. WITHIN SIXTY MONTHS AFTER POSTAPPROVAL UNDER SUBSECTION F OF THIS
12 SECTION, IF THE DEPARTMENT OF COMMERCE DETERMINES THAT A PERSON THAT RECEIVED
13 A TAX CREDIT PURSUANT TO THIS SECTION FAILED TO COMPLY WITH ANY OF THE
14 REQUIREMENTS PRESCRIBED BY THIS SECTION, THE DEPARTMENT SHALL TERMINATE,
15 ADJUST OR RECAPTURE ALL OR PART OF THE TAX CREDIT. THE DEPARTMENT OF
16 COMMERCE SHALL NOTIFY THE DEPARTMENT OF REVENUE OF THE CONDITIONS OF
17 NONCOMPLIANCE. THE DEPARTMENT OF REVENUE MAY ALSO TERMINATE THE APPROVAL OF
18 THE CREDIT IF IT OBTAINS INFORMATION INDICATING A FAILURE TO QUALIFY AND
19 COMPLY. THE DEPARTMENT OF REVENUE MAY REQUIRE THE PERSON TO:

20 1. FILE APPROPRIATE AMENDED TAX RETURNS REFLECTING THE RECAPTURE OF
21 THE AMOUNT OF THE TAX CREDIT ACTUALLY APPLIED TO REDUCE STATE INCOME TAX
22 LIABILITY.

23 2. PAY A PENALTY OF FOUR AND ONE-HALF PER CENT OF THE AMOUNT OF THE
24 APPLIED CREDIT PER MONTH ELAPSING FROM THE DATE THE PENALTY IS ASSESSED UNTIL
25 IT IS PAID, EXCEPT THAT THE TOTAL PENALTY SHALL NOT EXCEED TWENTY-FIVE PER
26 CENT OF THE FULL AMOUNT OF THE CREDIT.

27 I. THE DEPARTMENT OF COMMERCE, WITH THE COOPERATION OF THE DEPARTMENT
28 OF REVENUE, SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS AND PROCEDURES
29 AS NECESSARY TO EFFECTUATE THE PURPOSES OF THIS SECTION.

30 J. ANY INFORMATION GATHERED FROM APPLICANTS FOR THE PURPOSES OF THIS
31 SECTION IS CONSIDERED TO BE CONFIDENTIAL TAXPAYER INFORMATION AND SHALL BE
32 DISCLOSED ONLY AS PROVIDED IN SECTION 41-1517, SUBSECTION S AND SECTION
33 42-2003, SUBSECTION B, PARAGRAPH 12.

34 K. FOR THE PURPOSES OF THIS SECTION:

35 1. "BASE INVESTMENT" MEANS THE BUDGET FOR THE INFRASTRUCTURE PROJECT.

36 2. "MOTION PICTURE" HAS THE SAME MEANING AS DEFINED IN SECTION
37 41-1517.

38 3. "MOTION PICTURE INFRASTRUCTURE PROJECT", "INFRASTRUCTURE PROJECT"
39 AND "PROJECT":

40 (a) MEANS SOUNDSTAGES AND SUPPORT AND AUGMENTATION FACILITIES THAT ARE
41 CONSTRUCTED IN THIS STATE AND PRIMARILY USED FOR MOTION PICTURE PRODUCTION.

42 (b) DOES NOT INCLUDE MOTION PICTURE THEATERS AND OTHER COMMERCIAL
43 EXHIBITION FACILITIES.

44 4. "SOUNDSTAGE" MEANS A PERMANENT FACILITY IN THIS STATE OF ONE OR
45 MORE SETS OR STAGES USED PRIMARILY FOR STAGING AND FILMING MOTION PICTURES

1 AND ANY LAND, PERMANENT BUILDINGS OR CAPITAL EQUIPMENT THAT IS IN OR ADJACENT
2 TO, AND IS NECESSARY FOR THE OPERATION OF, A SOUNDSTAGE.

3 5. "SUPPORT AND AUGMENTATION FACILITIES" MEANS PERMANENT FACILITIES IN
4 THIS STATE THAT ARE USED TO COMPLEMENT MOTION PICTURE PRODUCTION NEEDS AND
5 COMPLEMENT THE MOTION PICTURE PRODUCTION.

6 6. "SURETY BOND" MEANS AN EXECUTED WRITTEN CONTRACT, ISSUED BY AN
7 INSURANCE COMPANY WITH AN INSURANCE INDUSTRY RATING OF B+ OR BETTER BY A.M.
8 BEST COMPANY GUARANTYING TO THE FINANCIERS OF THE PROJECT THAT IT WILL BE
9 COMPLETED ACCORDING TO THE TERMS OF THE PREAPPROVED APPLICATION SUBMITTED BY
10 THE PRODUCTION COMPANY IN ITS APPLICATION.

11 Sec. 3. Section 42-2003, Arizona Revised Statutes, is amended to read:
12 42-2003. Authorized disclosure of confidential information

13 A. Confidential information relating to:

14 1. A taxpayer may be disclosed to the taxpayer, its successor in
15 interest or a designee of the taxpayer who is authorized in writing by the
16 taxpayer. A principal corporate officer of a parent corporation may execute
17 a written authorization for a controlled subsidiary.

18 2. A corporate taxpayer may be disclosed to any principal officer, any
19 person designated by a principal officer or any person designated in a
20 resolution by the corporate board of directors or other similar governing
21 body.

22 3. A partnership may be disclosed to any partner of the partnership.
23 This exception does not include disclosure of confidential information of a
24 particular partner unless otherwise authorized.

25 4. An estate may be disclosed to the personal representative of the
26 estate and to any heir, next of kin or beneficiary under the will of the
27 decedent if the department finds that the heir, next of kin or beneficiary
28 has a material interest which will be affected by the confidential
29 information.

30 5. A trust may be disclosed to the trustee or trustees, jointly or
31 separately, and to the grantor or any beneficiary of the trust if the
32 department finds that the grantor or beneficiary has a material interest
33 which will be affected by the confidential information.

34 6. Any taxpayer may be disclosed if the taxpayer has waived any rights
35 to confidentiality either in writing or on the record in any administrative
36 or judicial proceeding.

37 7. The name and taxpayer identification numbers of persons issued
38 direct payment permits may be publicly disclosed.

39 B. Confidential information may be disclosed to:

40 1. Any employee of the department whose official duties involve tax
41 administration.

42 2. The office of the attorney general solely for its use in
43 preparation for, or in an investigation which may result in, any proceeding
44 involving tax administration before the department or any other agency or
45 board of this state, or before any grand jury or any state or federal court.

1 3. The department of liquor licenses and control for its use in
2 determining whether a spirituous liquor licensee has paid all transaction
3 privilege taxes and affiliated excise taxes incurred as a result of the sale
4 of spirituous liquor, as defined in section 4-101, at the licensed
5 establishment and imposed on the licensed establishments by this state and
6 its political subdivisions.

7 4. Other state tax officials whose official duties require the
8 disclosure for proper tax administration purposes if the information is
9 sought in connection with an investigation or any other proceeding conducted
10 by the official. Any disclosure is limited to information of a taxpayer who
11 is being investigated or who is a party to a proceeding conducted by the
12 official.

13 5. The following agencies, officials and organizations, if they grant
14 substantially similar privileges to the department for the type of
15 information being sought, pursuant to statute and a written agreement between
16 the department and the foreign country, agency, state, Indian tribe or
17 organization:

18 (a) The United States internal revenue service, alcohol and tobacco
19 tax and trade bureau of the United States treasury, United States bureau of
20 alcohol, tobacco, firearms and explosives of the United States department of
21 justice, United States drug enforcement agency and federal bureau of
22 investigation.

23 (b) A state tax official of another state.

24 (c) An organization of states, federation of tax administrators or
25 multistate tax commission that operates an information exchange for tax
26 administration purposes.

27 (d) An agency, official or organization of a foreign country with
28 responsibilities that are comparable to those listed in subdivision (a), (b)
29 or (c) of this paragraph.

30 (e) An agency, official or organization of an Indian tribal government
31 with responsibilities comparable to the responsibilities of the agencies,
32 officials or organizations identified in subdivision (a), (b) or (c) of this
33 paragraph.

34 6. The auditor general, in connection with any audit of the department
35 subject to the restrictions in section 42-2002, subsection D.

36 7. Any person to the extent necessary for effective tax administration
37 in connection with:

38 (a) The processing, storage, transmission, destruction and
39 reproduction of the information.

40 (b) The programming, maintenance, repair, testing and procurement of
41 equipment for purposes of tax administration.

42 8. The office of administrative hearings relating to taxes
43 administered by the department pursuant to section 42-1101, but the
44 department shall not disclose any confidential information:

1 (a) Regarding income tax, withholding tax or estate tax.

2 (b) On any tax issue relating to information associated with the
3 reporting of income tax, withholding tax or estate tax.

4 9. The United States treasury inspector general for tax administration
5 for the purpose of reporting a violation of internal revenue code section
6 7213A (26 United States Code section 7213A), unauthorized inspection of
7 returns or return information.

8 10. The financial management service of the United States treasury
9 department for use in the treasury offset program.

10 11. The United States treasury department or its authorized agent for
11 use in the state income tax levy program and in the electronic federal tax
12 payment system.

13 12. The department of commerce for its use in ~~both~~:

14 (a) Qualifying motion picture production companies for the tax
15 incentives provided for motion picture production under chapter 5 of this
16 title and sections 43-1075 and 43-1163.

17 (b) Fulfilling its annual reporting responsibility pursuant to section
18 41-1517, subsection ~~T~~.

19 (c) **QUALIFYING APPLICANTS FOR THE MOTION PICTURE INFRASTRUCTURE**
20 **PROJECT TAX CREDITS UNDER SECTIONS 43-1075.01 AND 43-1163.01.**

21 C. Confidential information may be disclosed in any state or federal
22 judicial or administrative proceeding pertaining to tax administration
23 pursuant to the following conditions:

24 1. One or more of the following circumstances must apply:

25 (a) The taxpayer is a party to the proceeding.

26 (b) The proceeding arose out of, or in connection with, determining
27 the taxpayer's civil or criminal liability, or the collection of the
28 taxpayer's civil liability, with respect to any tax imposed under this title
29 or title 43.

30 (c) The treatment of an item reflected on the taxpayer's return is
31 directly related to the resolution of an issue in the proceeding.

32 (d) Return information directly relates to a transactional
33 relationship between a person who is a party to the proceeding and the
34 taxpayer and directly affects the resolution of an issue in the proceeding.

35 2. Confidential information may not be disclosed under this subsection
36 if the disclosure is prohibited by section 42-2002, subsection C or D.

37 D. Identity information may be disclosed for purposes of notifying
38 persons entitled to tax refunds if the department is unable to locate the
39 persons after reasonable effort.

40 E. The department, upon the request of any person, shall provide the
41 names and addresses of bingo licensees as defined in section 5-401, verify
42 whether or not a person has a privilege license and number, a distributor's
43 license and number or a withholding license and number or disclose the
44 information to be posted on the department's web site or otherwise publicly

1 accessible pursuant to ~~sections~~ SECTION 42-1124, subsection F and SECTION
2 42-3201, subsection A.

3 F. A department employee, in connection with the official duties
4 relating to any audit, collection activity or civil or criminal
5 investigation, may disclose return information to the extent that disclosure
6 is necessary to obtain information which is not otherwise reasonably
7 available. These official duties include the correct determination of and
8 liability for tax, the amount to be collected or the enforcement of other
9 state tax revenue laws.

10 G. If an organization is exempt from this state's income tax as
11 provided in section 43-1201 for any taxable year, the name and address of the
12 organization and the application filed by the organization upon which the
13 department made its determination for exemption together with any papers
14 submitted in support of the application and any letter or document issued by
15 the department concerning the application are open to public inspection.

16 H. Confidential information relating to transaction privilege tax, use
17 tax, severance tax, jet fuel excise and use tax and rental occupancy tax may
18 be disclosed to any county, city or town tax official if the information
19 relates to a taxpayer who is or may be taxable by the county, city or town.
20 Any taxpayer information released by the department to the county, city or
21 town:

22 1. May only be used for internal purposes.

23 2. May not be disclosed to the public in any manner that does not
24 comply with confidentiality standards established by the department. The
25 county, city or town shall agree in writing with the department that any
26 release of confidential information that violates the confidentiality
27 standards adopted by the department will result in the immediate suspension
28 of any rights of the county, city or town to receive taxpayer information
29 under this subsection.

30 I. The department may disclose statistical information gathered from
31 confidential information if it does not disclose confidential information
32 attributable to any one taxpayer. In order to comply with the requirements
33 of section 42-5029, subsection A, paragraph 3, the department may disclose to
34 the state treasurer statistical information gathered from confidential
35 information, even if it discloses confidential information attributable to a
36 taxpayer.

37 J. The department may disclose the aggregate amounts of any tax
38 credit, tax deduction or tax exemption enacted after January 1, 1994.
39 Information subject to disclosure under this subsection shall not be
40 disclosed if a taxpayer demonstrates to the department that such information
41 would give an unfair advantage to competitors.

42 K. Except as provided in section 42-2002, subsection C, confidential
43 information, described in section 42-2001, paragraph 2, subdivision (a), item
44 (iii), may be disclosed to law enforcement agencies for law enforcement
45 purposes.

1 L. The department may provide transaction privilege tax license
2 information to property tax officials in a county for the purpose of
3 identification and verification of the tax status of commercial property.

4 M. The department may provide transaction privilege tax, luxury tax,
5 use tax, property tax and severance tax information to the ombudsman-citizens
6 aide pursuant to title 41, chapter 8, article 5.

7 N. Except as provided in section 42-2002, subsection D, a court may
8 order the department to disclose confidential information pertaining to a
9 party to an action. An order shall be made only upon a showing of good cause
10 and that the party seeking the information has made demand upon the taxpayer
11 for the information.

12 O. This section does not prohibit the disclosure by the department of
13 any information or documents submitted to the department by a bingo licensee.
14 Before disclosing the information the department shall obtain the name and
15 address of the person requesting the information.

16 P. If the department is required or permitted to disclose confidential
17 information, it may charge the person or agency requesting the information
18 for the reasonable cost of its services.

19 Q. Except as provided in section 42-2002, subsection D, the department
20 of revenue shall release confidential information as requested by the
21 department of economic security pursuant to section 42-1122 or 46-291.
22 Information disclosed under this subsection is limited to the same type of
23 information that the United States internal revenue service is authorized to
24 disclose under section 6103(l)(6) of the internal revenue code.

25 R. Except as provided in section 42-2002, subsection D, the department
26 of revenue shall release confidential information as requested by the courts
27 and clerks of the court pursuant to section 42-1122.

28 S. To comply with the requirements of section 42-5031, the department
29 may disclose to the state treasurer, to the county stadium district board of
30 directors and to any city or town tax official that is part of the county
31 stadium district confidential information attributable to a taxpayer's
32 business activity conducted in the county stadium district.

33 T. The department shall release confidential information as requested
34 by the attorney general for purposes of determining compliance with and
35 enforcing section 44-7101, the master settlement agreement referred to
36 therein and subsequent agreements to which the state is a party that amend or
37 implement the master settlement agreement. Information disclosed under this
38 subsection is limited to luxury tax information relating to tobacco
39 manufacturers, distributors, wholesalers and retailers and information
40 collected by the department pursuant to section 44-7101(2)(j).

41 U. For proceedings before the department, the office of administrative
42 hearings, the board of tax appeals or any state or federal court involving
43 penalties that were assessed against a return preparer or electronic return
44 preparer pursuant to section 42-1103.02 or 42-1125.01, confidential
45 information may be disclosed only before the judge or administrative law

1 judge adjudicating the proceeding, the parties to the proceeding and the
2 parties' representatives in the proceeding prior to its introduction into
3 evidence in the proceeding. The confidential information may be introduced
4 as evidence in the proceeding only if the taxpayer's name, the names of any
5 dependents listed on the return, all social security numbers, the taxpayer's
6 address, the taxpayer's signature and any attachments containing any of the
7 foregoing information are redacted and if either:

8 1. The treatment of an item reflected on such return is or may be
9 related to the resolution of an issue in the proceeding.

10 2. Such return or return information relates or may relate to a
11 transactional relationship between a person who is a party to the proceeding
12 and the taxpayer which directly affects the resolution of an issue in the
13 proceeding.

14 V. The department may disclose to the attorney general confidential
15 information received under section 44-7111 and requested by the attorney
16 general for purposes of determining compliance with and enforcing section
17 44-7111. The department and attorney general shall share with each other the
18 information received under section 44-7111, and may share the information
19 with other federal, state or local agencies only for the purposes of
20 enforcement of section 44-7101, section 44-7111 or corresponding laws of
21 other states.

22 Sec. 4. Section 43-222, Arizona Revised Statutes, as amended by Laws
23 2007, chapter 7, section 1, is amended to read:

24 43-222. Income tax credit review schedule

25 Each year the joint legislative income tax credit review committee
26 shall review the following income tax credits:

27 1. In 2007, sections 43-1077, 43-1078, 43-1079, 43-1080, 43-1165,
28 43-1166, 43-1167 and 43-1169.

29 2. In 2008, sections 43-1074.01, 43-1081, 43-1168, 43-1170 and
30 43-1178.

31 3. In 2009, sections 43-1076, 43-1081.01, 43-1084, 43-1162 and
32 43-1170.01.

33 4. In 2010, sections 43-1075, 43-1075.01, 43-1079.01, 43-1087,
34 43-1088, 43-1090.01, 43-1163, 43-1163.01, 43-1167.01, 43-1175 and 43-1182.

35 5. In 2011, sections 43-1074.02, 43-1083, 43-1085, 43-1164 and
36 43-1183.

37 6. In 2012, sections 43-1073, 43-1089, 43-1089.01, 43-1089.02,
38 43-1090, 43-1176 and 43-1181.

39 Sec. 5. Section 43-1021, Arizona Revised Statutes, is amended to read:
40 43-1021. Additions to Arizona gross income

41 In computing Arizona adjusted gross income, the following amounts shall
42 be added to Arizona gross income:

43 1. A beneficiary's share of the fiduciary adjustment to the extent
44 that the amount determined by section 43-1333 increases the beneficiary's
45 Arizona gross income.

1 2. An amount equal to the "ordinary income portion" of a lump sum
2 distribution that was excluded from federal adjusted gross income pursuant to
3 section 402(d) of the internal revenue code.

4 3. The amount of interest income received on obligations of any state,
5 territory or possession of the United States, or any political subdivision
6 thereof, located outside the state of Arizona, reduced, for tax years
7 beginning from and after December 31, 1996, by the amount of any interest on
8 indebtedness and other related expenses that were incurred or continued to
9 purchase or carry those obligations and that are not otherwise deducted or
10 subtracted in arriving at Arizona gross income.

11 4. Annuity income received during the taxable year to the extent that
12 the sum of the proceeds received from such annuity in all taxable years prior
13 to and including the current taxable year exceeds the total consideration and
14 premiums paid by the taxpayer. This paragraph applies only to those
15 annuities with respect to which the first payment was received prior to
16 December 31, 1978.

17 5. The excess of a partner's share of partnership taxable income
18 required to be included under chapter 14, article 2 of this title over the
19 income required to be reported under section 702(a)(8) of the internal
20 revenue code.

21 6. The excess of a partner's share of partnership losses determined
22 pursuant to section 702(a)(8) of the internal revenue code over the losses
23 allowable under chapter 14, article 2 of this title.

24 7. The amount by which the adjusted basis of property described in
25 this paragraph and computed pursuant to the internal revenue code exceeds the
26 adjusted basis of such property computed pursuant to this title and the
27 income tax act of 1954, as amended. This paragraph shall apply to all
28 property which is held for the production of income and which is sold or
29 otherwise disposed of during the taxable year, except depreciable property
30 used in a trade or business.

31 8. The amount of depreciation or amortization of costs of any capital
32 investment that is deducted pursuant to section 167 or 179 of the internal
33 revenue code by a qualified defense contractor with respect to which an
34 election is made to amortize pursuant to section 43-1024.

35 9. The amount of gain from the sale or other disposition of a capital
36 investment which a qualified defense contractor has elected to amortize
37 pursuant to section 43-1024.

38 10. Amounts withdrawn from the Arizona state retirement system, the
39 corrections officer retirement plan, the public safety personnel retirement
40 system, the elected officials' retirement plan or a county or city retirement
41 plan by an employee upon termination of employment before retirement to the
42 extent they were deducted in arriving at Arizona taxable income in any year.

43 11. That portion of the net operating loss included in federal adjusted
44 gross income which has already been taken as a net operating loss for Arizona

1 purposes or which is separately taken as a subtraction under the special net
2 operating loss transition rule.

3 12. Any nonitemized amount deducted pursuant to section 170 of the
4 internal revenue code representing contributions to an educational
5 institution which denies admission, enrollment or board and room
6 accommodations on the basis of race, color or ethnic background except those
7 institutions primarily established for the education of American Indians.

8 13. The amount paid as taxes on property in this state with respect to
9 which a credit is claimed under section 43-1078.

10 14. Amounts withdrawn from a medical savings account by the individual
11 during the taxable year computed pursuant to section 220(f) of the internal
12 revenue code and not included in federal adjusted gross income.

13 15. Any amount of agricultural water conservation expenses that were
14 deducted pursuant to the internal revenue code for which a credit is claimed
15 under section 43-1084.

16 16. The amount by which the depreciation or amortization computed under
17 the internal revenue code with respect to property for which a credit was
18 taken under section 43-1080 exceeds the amount of depreciation or
19 amortization computed pursuant to the internal revenue code on the Arizona
20 adjusted basis of the property.

21 17. The amount by which the adjusted basis computed under the internal
22 revenue code with respect to property for which a credit was claimed under
23 section 43-1080 and which is sold or otherwise disposed of during the taxable
24 year exceeds the adjusted basis of the property computed under section
25 43-1080.

26 18. The amount by which the depreciation or amortization computed under
27 the internal revenue code with respect to property for which a credit was
28 taken under either section 43-1081 or 43-1081.01 exceeds the amount of
29 depreciation or amortization computed pursuant to the internal revenue code
30 on the Arizona adjusted basis of the property.

31 19. The amount by which the adjusted basis computed under the internal
32 revenue code with respect to property for which a credit was claimed under
33 section 43-1074.02, 43-1081 or 43-1081.01 and which is sold or otherwise
34 disposed of during the taxable year exceeds the adjusted basis of the
35 property computed under section 43-1074.02, 43-1081 or 43-1081.01, as
36 applicable.

37 20. The deduction referred to in section 1341(a)(4) of the internal
38 revenue code for restoration of a substantial amount held under a claim of
39 right.

40 21. The amount by which a net operating loss carryover or capital loss
41 carryover allowable pursuant to section 1341(b)(5) of the internal revenue
42 code exceeds the net operating loss carryover or capital loss carryover
43 allowable pursuant to section 43-1029, subsection F.

1 22. Any amount deducted pursuant to section 170 of the internal revenue
2 code representing contributions to a school tuition organization or a public
3 school for which a credit is claimed under section 43-1089 or 43-1089.01.

4 23. Any amount deducted in computing Arizona gross income as expenses
5 for installing solar stub outs or electric vehicle recharge outlets in this
6 state with respect to which a credit is claimed pursuant to section 43-1090.

7 24. Any wage expenses deducted pursuant to the internal revenue code
8 for which a credit is claimed under section 43-1087 and representing net
9 increases in qualified employment positions for employment of temporary
10 assistance for needy families recipients.

11 25. Any amount deducted for conveying ownership or development rights
12 of property to an agricultural preservation district under section 48-5702
13 for which a credit is claimed under section 43-1081.02.

14 26. The amount of any depreciation allowance allowed pursuant to
15 section 167(a) of the internal revenue code to the extent not previously
16 added.

17 27. With respect to property for which an expense deduction was taken
18 pursuant to section 179 of the internal revenue code, the amount in excess of
19 twenty-five thousand dollars.

20 28. The amount of any deductions that are claimed in computing federal
21 adjusted gross income representing expenses for which a credit is claimed
22 under EITHER section 43-1075 OR 43-1075.01 OR BOTH.

23 29. The amount by which the depreciation or amortization computed under
24 the internal revenue code with respect to property for which a credit was
25 taken under section 43-1090.01 exceeds the amount of depreciation or
26 amortization computed pursuant to the internal revenue code on the Arizona
27 adjusted basis of the property.

28 30. The amount by which the adjusted basis computed under the internal
29 revenue code with respect to property for which a credit was claimed under
30 section 43-1090.01 and which is sold or otherwise disposed of during the
31 taxable year exceeds the adjusted basis of the property computed under
32 section 43-1090.01.

33 Sec. 6. Section 43-1075, Arizona Revised Statutes, is amended to read:

34 43-1075. Credit for motion picture production costs;
35 definitions

36 A. Beginning from and after December 31, 2005 through December 31,
37 2010, a credit is allowed against the taxes imposed by this title for motion
38 picture production costs paid by a motion picture production company in this
39 state that are directly attributable to the production of one or more motion
40 pictures in this state. The amount of the credit is equal to a percentage of
41 the amount of motion picture production costs paid in this state as follows:

<u>Production costs</u>	<u>Percentage credit</u>
\$250,000 - \$1,000,000	10% 20%
\$1,000,001 - \$3,000,000	15%
More than \$3,000,000 \$1,000,000	20% 30%

1 B. The department shall not allow in any year tax credits that exceed
2 the aggregate amount prescribed in section 41-1517.

3 C. The department shall not allow a credit under this section to a
4 taxpayer who has a delinquent tax balance owing to the department under this
5 title or title 42.

6 D. To qualify for a credit under this section, the motion picture
7 production company must:

8 1. Employ residents of this state in production as follows:

9 (a) In 2006, twenty-five per cent of full-time employees working in
10 this state must be residents of this state.

11 (b) In 2007, thirty-five per cent of full-time employees working in
12 this state must be residents of this state.

13 (c) In 2008 and every subsequent taxable year, fifty per cent of
14 full-time employees working in this state must be residents of this state.

15 2. Include in the production credits for each commercial motion
16 picture, other than a commercial advertisement OR MUSIC VIDEO, an
17 acknowledgement that the production was filmed in Arizona.

18 3. Receive preapproval and postapproval from the department of
19 commerce pursuant to section 41-1517.

20 E. BEGINNING WITH TAX CREDITS ALLOCATED FOR 2006 PURSUANT TO SECTION
21 41-1517, SUBSECTION J, A MOTION PICTURE PRODUCTION COMPANY, AT ITS EXPENSE,
22 MAY VOLUNTARILY ENTER INTO A LIMITED MANAGED AUDIT AGREEMENT PURSUANT TO
23 TITLE 42, CHAPTER 2, ARTICLE 7 THAT INCLUDES AN AUDIT OF ITS PRODUCTION COSTS
24 AND OTHER REQUIREMENTS PRESCRIBED BY SECTION 41-1517 AND BY THIS SECTION TO
25 CONFIRM THE AMOUNT OF ANY CREDIT UNDER THIS SECTION. THE REQUEST TO ENTER
26 INTO THE AUDIT MUST BE MADE AFTER THE MOTION PICTURE PRODUCTION COMPANY
27 RECEIVES POSTCERTIFICATION FOR THE CREDIT PURSUANT TO SECTION 41-1517,
28 SUBSECTION O. THE AUDIT MUST BE CONDUCTED BY THE TAXPAYER'S AUTHORIZED
29 REPRESENTATIVE, AS DEFINED BY SECTION 42-2301, WHO IS AN INDEPENDENT
30 CERTIFIED PUBLIC ACCOUNTANT LICENSED IN THIS STATE. THE CERTIFIED PUBLIC
31 ACCOUNTANT AND THE FIRM THE CERTIFIED PUBLIC ACCOUNTANT IS AFFILIATED WITH
32 SHALL NOT REGULARLY PERFORM SERVICES FOR THE MOTION PICTURE PRODUCTION
33 COMPANY OR ITS AFFILIATES. IF THE DIRECTOR ACCEPTS THE FINDINGS OF THE AUDIT
34 AND ISSUES A NOTICE OF DETERMINATION PURSUANT TO SECTION 42-2303 AND THE
35 TAXPAYER TIMELY FILES ITS INCOME TAX RETURN WITH THE APPROPRIATE CREDIT CLAIM
36 FORMS, THE CREDIT AMOUNT ACCEPTED IS NOT SUBJECT TO RECAPTURE, DISALLOWANCE,
37 REDUCTION OR DENIAL WITH RESPECT TO EITHER THE MOTION PICTURE PRODUCTION
38 COMPANY OR ANY SUBSEQUENT TRANSFEREE OF THE CREDIT, AND SUBSECTION H,
39 PARAGRAPH 4 OF THIS SECTION DOES NOT APPLY. THE DIRECTOR'S NOTICE OF
40 DETERMINATION SHALL INCLUDE A WRITTEN CERTIFICATE TO THE TAXPAYER STATING THE
41 AMOUNT OF THE CREDIT AND THAT THE CREDIT IS NOT SUBJECT TO RECAPTURE FROM A
42 TRANSFEREE. THIS SUBSECTION DOES NOT PROHIBIT THE RECAPTURE OF A CREDIT FROM
43 A MOTION PICTURE PRODUCTION COMPANY IF THE COMPANY FAILED TO DISCLOSE
44 MATERIAL INFORMATION DURING THE AUDIT OR FALSIFIED ITS BOOKS OR RECORDS OR
45 OTHERWISE ENGAGED IN AN ACTION THAT PREVENTED AN ACCURATE AUDIT.

1 ~~E.~~ F. Co-owners of a motion picture production company, including
2 partners in a partnership, members of a limited liability company and
3 shareholders of an S corporation as defined in section 1361 of the internal
4 revenue code, may allocate the credit allowed under this section among the
5 co-owners on any basis without regard to their proportional ownership
6 interest. The total of the credits allowed all such owners of the motion
7 picture production company may not exceed the amount that would have been
8 allowed for a sole owner of the company.

9 ~~F.~~ G. If the allowable tax credit for a taxpayer exceeds the taxes
10 otherwise due under this title on the claimant's income, or if there are no
11 taxes due under this title, the taxpayer may carry the amount of the claim
12 not used to offset the taxes under this title forward for not more than five
13 consecutive taxable years' income tax liability.

14 ~~G.~~ H. All or part of any unclaimed amount of credit under this
15 section may be sold or otherwise transferred under the following conditions:

16 1. A single sale or transfer may involve one or more transferees, and
17 a transferee may in turn resell or transfer the credit subject to the same
18 conditions of this subsection.

19 2. Both the transferor and transferee must submit a written notice of
20 the transfer to the department within thirty days after the sale or transfer.
21 The transferee's notice shall include a processing fee equal to one per cent
22 of the transferee's tax credit balance or two hundred dollars, whichever is
23 less. The notice shall include:

- 24 (a) The name of the motion picture production company.
25 (b) The date of the transfer.
26 (c) The amount of the transfer.
27 (d) The transferor's tax credit balance before the transfer and the
28 remaining balance after the transfer.
29 (e) All tax identification numbers for both transferor and transferee.
30 (f) Any other information required by rule.

31 3. A sale or transfer of the credit does not extend the time in which
32 the credit can be used. ~~The carryforward period of time under subsection F~~
33 ~~of this section for a credit that is sold or transferred begins on the date~~
34 ~~the credit was originally earned.~~

35 4. **EXCEPT AS PROVIDED BY SUBSECTION E OF THIS SECTION,** if a transferor
36 was not qualified or was disqualified from using the credit at the time of
37 the transfer, the department shall either disallow the credit claimed by a
38 transferee or recapture the credit from the transferee through any authorized
39 collection method. The transferee's recourse is against the transferor.

40 5. In the case of any failure to comply with this subsection, the
41 department shall disallow the tax credit until the taxpayer is in full
42 compliance.

1 FILES ITS INCOME TAX RETURN WITH THE APPROPRIATE CREDIT CLAIM FORMS, THE
2 CREDIT AMOUNT ACCEPTED IS NOT SUBJECT TO RECAPTURE, DISALLOWANCE, REDUCTION
3 OR DENIAL WITH RESPECT TO EITHER THE TAXPAYER OR ANY SUBSEQUENT TRANSFEREE OF
4 THE CREDIT, AND SUBSECTION F, PARAGRAPH 4 OF THIS SECTION DOES NOT APPLY.
5 THE DIRECTOR'S NOTICE OF DETERMINATION SHALL INCLUDE A WRITTEN CERTIFICATE TO
6 THE TAXPAYER STATING THE AMOUNT OF THE CREDIT AND THAT THE CREDIT IS NOT
7 SUBJECT TO RECAPTURE FROM A TRANSFEREE. THIS SUBSECTION DOES NOT PREVENT THE
8 RECAPTURE OF A CREDIT IF THE TAXPAYER FAILED TO DISCLOSE MATERIAL INFORMATION
9 DURING THE AUDIT OR FALSIFIED ITS BOOKS OR RECORDS OR OTHERWISE ENGAGED IN AN
10 ACTION THAT PREVENTED AN ACCURATE AUDIT.

11 D. CO-OWNERS OF A BUSINESS, INCLUDING PARTNERS IN A PARTNERSHIP,
12 MEMBERS OF A LIMITED LIABILITY COMPANY AND SHAREHOLDERS OF AN S CORPORATION
13 AS DEFINED IN SECTION 1361 OF THE INTERNAL REVENUE CODE, MAY ALLOCATE THE
14 CREDIT ALLOWED UNDER THIS SECTION AMONG THE CO-OWNERS ON ANY BASIS WITHOUT
15 REGARD TO THEIR PROPORTIONAL OWNERSHIP INTEREST. THE TOTAL OF THE CREDITS
16 ALLOWED ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT THAT WOULD HAVE BEEN
17 ALLOWED FOR A SOLE OWNER OF THE COMPANY.

18 E. IF THE ALLOWABLE TAX CREDIT FOR A TAXPAYER EXCEEDS THE TAXES
19 OTHERWISE DUE UNDER THIS TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO
20 TAXES DUE UNDER THIS TITLE, THE TAXPAYER MAY CARRY THE AMOUNT OF THE CLAIM
21 NOT USED TO OFFSET THE TAXES UNDER THIS TITLE FORWARD FOR NOT MORE THAN FIVE
22 CONSECUTIVE TAXABLE YEARS' INCOME TAX LIABILITY.

23 F. ALL OR PART OF ANY UNCLAIMED AMOUNT OF CREDIT UNDER THIS SECTION
24 MAY BE SOLD OR OTHERWISE TRANSFERRED UNDER THE FOLLOWING CONDITIONS:

25 1. A SINGLE SALE OR TRANSFER MAY INVOLVE ONE OR MORE TRANSFEREES, AND
26 A TRANSFEREE MAY IN TURN RESELL OR TRANSFER THE CREDIT SUBJECT TO THE SAME
27 CONDITIONS OF THIS SUBSECTION.

28 2. BOTH THE TRANSFEROR AND TRANSFEREE MUST SUBMIT A WRITTEN NOTICE OF
29 THE TRANSFER TO THE DEPARTMENT WITHIN THIRTY DAYS AFTER THE SALE OR TRANSFER.
30 THE TRANSFEREE'S NOTICE SHALL INCLUDE A PROCESSING FEE EQUAL TO ONE PER CENT
31 OF THE TRANSFEREE'S TAX CREDIT BALANCE OR TWO HUNDRED DOLLARS, WHICHEVER IS
32 LESS. THE NOTICE SHALL INCLUDE:

- 33 (a) THE NAME OF THE TAXPAYER.
- 34 (b) THE DATE OF THE TRANSFER.
- 35 (c) THE AMOUNT OF THE TRANSFER.
- 36 (d) THE TRANSFEROR'S TAX CREDIT BALANCE BEFORE THE TRANSFER AND THE
37 REMAINING BALANCE AFTER THE TRANSFER.
- 38 (e) ALL TAX IDENTIFICATION NUMBERS FOR BOTH TRANSFEROR AND TRANSFEREE.
- 39 (f) ANY OTHER INFORMATION REQUIRED BY RULE.

40 3. A SALE OR TRANSFER OF THE CREDIT DOES NOT EXTEND THE TIME IN WHICH
41 THE CREDIT CAN BE USED. THE CARRYFORWARD PERIOD OF TIME UNDER SUBSECTION E
42 OF THIS SECTION FOR A CREDIT THAT IS SOLD OR TRANSFERRED BEGINS ON THE DATE
43 THE CREDIT WAS ORIGINALLY EARNED.

44 4. EXCEPT AS PROVIDED BY SUBSECTION C OF THIS SECTION, IF A TRANSFEROR
45 WAS NOT QUALIFIED OR WAS DISQUALIFIED FROM USING THE CREDIT AT THE TIME OF

1 THE TRANSFER, THE DEPARTMENT SHALL EITHER DISALLOW THE CREDIT CLAIMED BY A
2 TRANSFEREE OR RECAPTURE THE CREDIT FROM THE TRANSFEREE THROUGH ANY AUTHORIZED
3 COLLECTION METHOD. THE TRANSFEREE'S RECOURSE IS AGAINST THE TRANSFEROR.

4 5. IN THE CASE OF ANY FAILURE TO COMPLY WITH THIS SUBSECTION, THE
5 DEPARTMENT SHALL DISALLOW THE TAX CREDIT UNTIL THE TAXPAYER IS IN FULL
6 COMPLIANCE.

7 G. THE DEPARTMENT SHALL MAINTAIN ANNUAL DATA ON THE TOTAL AMOUNT OF
8 MONIES CREDITED PURSUANT TO THIS SECTION, AND SHALL PROVIDE THAT DATA TO THE
9 DEPARTMENT OF COMMERCE ON REQUEST.

10 H. THE DEPARTMENT OF REVENUE, WITH THE COOPERATION OF THE DEPARTMENT
11 OF COMMERCE, SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS AND PROCEDURES
12 AS NECESSARY TO EFFECTUATE THE PURPOSES OF THIS SECTION.

13 I. A TAXPAYER WHO CLAIMS A CREDIT FOR MOTION PICTURE INFRASTRUCTURE
14 PROJECTS UNDER THIS SECTION SHALL NOT CLAIM A CREDIT UNDER SECTION 43-1075
15 FOR THE SAME COSTS.

16 J. THE CREDIT ALLOWED BY THIS SECTION IS IN LIEU OF ANY ALLOWANCE FOR
17 STATE TAX PURPOSES OF A DEDUCTION OF THOSE EXPENSES ALLOWED BY THE INTERNAL
18 REVENUE CODE.

19 K. FOR THE PURPOSES OF THIS SECTION, "MOTION PICTURE INFRASTRUCTURE
20 PROJECT" HAS THE SAME MEANING AS DEFINED IN SECTION 41-1517.01.

21 Sec. 8. Section 43-1121, Arizona Revised Statutes, is amended to read:

22 43-1121. Additions to Arizona gross income; corporations

23 In computing Arizona taxable income for a corporation, the following
24 amounts shall be added to Arizona gross income:

25 1. The amounts computed pursuant to section 43-1021, paragraphs 3
26 through 9, 12, 26 and 27.

27 2. The amount of dividend income received from corporations and
28 allowed as a deduction pursuant to sections 243, 244 and 245 of the internal
29 revenue code.

30 3. Taxes which are based on income paid to states, local governments
31 or foreign governments and which were deducted in computing federal taxable
32 income.

33 4. Expenses and interest relating to tax-exempt income on indebtedness
34 incurred or continued to purchase or carry obligations the interest on which
35 is wholly exempt from the tax imposed by this title. Financial institutions,
36 as defined in section 6-101, shall be governed by section 43-961,
37 paragraph 2.

38 5. Commissions, rentals and other amounts paid or accrued to a
39 domestic international sales corporation controlled by the payor corporation
40 if the domestic international sales corporation is not required to report its
41 taxable income to this state because its income is not derived from or
42 attributable to sources within this state. If the domestic international
43 sales corporation is subject to article 4 of this chapter, the department
44 shall prescribe by rule the method of determining the portion of the
45 commissions, rentals and other amounts which are paid or accrued to the

1 controlled domestic international sales corporation and which shall be
2 deducted by the payor. "Control" for purposes of this paragraph means direct
3 or indirect ownership or control of fifty per cent or more of the voting
4 stock of the domestic international sales corporation by the payor
5 corporation.

6 6. Federal income tax refunds received during the taxable year to the
7 extent they were deducted in arriving at Arizona taxable income in a previous
8 year.

9 7. The amount of net operating loss taken pursuant to section 172 of
10 the internal revenue code.

11 8. The amount of exploration expenses determined pursuant to section
12 617 of the internal revenue code to the extent that they exceed seventy-five
13 thousand dollars and to the extent that the election is made to defer those
14 expenses not in excess of seventy-five thousand dollars.

15 9. Amortization of costs incurred to install pollution control devices
16 and deducted pursuant to the internal revenue code or the amount of deduction
17 for depreciation taken pursuant to the internal revenue code on pollution
18 control devices for which an election is made pursuant to section 43-1129.

19 10. The amount of depreciation or amortization of costs of child care
20 facilities deducted pursuant to section 167 or 188 of the internal revenue
21 code for which an election is made to amortize pursuant to section 43-1130.

22 11. Arizona state income tax refunds received, to the extent the amount
23 of the refunds is not already included in Arizona gross income, if a tax
24 benefit was derived by deduction of this amount in a prior year.

25 12. The amount paid as taxes on property in this state by a qualified
26 defense contractor with respect to which a credit is claimed under section
27 43-1166.

28 13. The loss of an insurance company that is exempt under section
29 43-1201 to the extent that it is included in computing Arizona gross income
30 on a consolidated return pursuant to section 43-947.

31 14. The amount by which the depreciation or amortization computed under
32 the internal revenue code with respect to property for which a credit was
33 taken under section 43-1169 exceeds the amount of depreciation or
34 amortization computed pursuant to the internal revenue code on the Arizona
35 adjusted basis of the property.

36 15. The amount by which the adjusted basis computed under the internal
37 revenue code with respect to property for which a credit was claimed under
38 section 43-1169 and which is sold or otherwise disposed of during the taxable
39 year exceeds the adjusted basis of the property computed under section
40 43-1169.

41 16. The amount by which the depreciation or amortization computed under
42 the internal revenue code with respect to property for which a credit was
43 taken under either section 43-1170 or 43-1170.01 exceeds the amount of
44 depreciation or amortization computed pursuant to the internal revenue code
45 on the Arizona adjusted basis of the property.

1 17. The amount by which the adjusted basis computed under the internal
2 revenue code with respect to property for which a credit was claimed under
3 either section 43-1170 or 43-1170.01 and which is sold or otherwise disposed
4 of during the taxable year exceeds the adjusted basis of the property
5 computed under section 43-1170 or 43-1170.01, as applicable.

6 18. The deduction referred to in section 1341(a)(4) of the internal
7 revenue code for restoration of a substantial amount held under a claim of
8 right.

9 19. The amount by which a capital loss carryover allowable pursuant to
10 section 1341(b)(5) of the internal revenue code exceeds the capital loss
11 carryover allowable pursuant to section 43-1130.01, subsection F.

12 20. Any amount deducted in computing Arizona taxable income as expenses
13 for installing solar stub outs or electric vehicle recharge outlets in this
14 state with respect to which a credit is claimed pursuant to section 43-1176.

15 21. Any wage expenses deducted pursuant to the internal revenue code
16 for which a credit is claimed under section 43-1175 and representing net
17 increases in qualified employment positions for employment of temporary
18 assistance for needy families recipients.

19 22. Any amount of expenses that were deducted pursuant to the internal
20 revenue code and for which a credit is claimed under section 43-1178.

21 23. Any amount deducted for conveying ownership or development rights
22 of property to an agricultural preservation district under section 48-5702
23 for which a credit is claimed under section 43-1180.

24 24. The amount of any deduction that is claimed in computing Arizona
25 gross income and that represents a donation of a school site for which a
26 credit is claimed under section 43-1181.

27 25. The amount of any deductions that are claimed in computing federal
28 taxable income representing expenses for which a credit is claimed under
29 **EITHER** section 43-1163 **OR 43-1163.01 OR BOTH**.

30 26. Any amount deducted in computing Arizona taxable income as expenses
31 for installing water conservation system plumbing stub outs in this state
32 with respect to which a credit is claimed pursuant to section 43-1182.

33 27. Any amount deducted pursuant to section 170 of the internal
34 revenue code representing contributions to a school tuition organization for
35 which a credit is claimed under section 43-1183.

36 Sec. 9. Section 43-1163, Arizona Revised Statutes, is amended to read:
37 **43-1163. Credit for motion picture production costs;**
38 **definitions**

39 A. Beginning from and after December 31, 2005 through December 31,
40 2010, a credit is allowed against the taxes imposed by this title for motion
41 picture production costs paid by a motion picture production company in this
42 state that are directly attributable to the production of one or more motion
43 pictures in this state. The amount of the credit is equal to a percentage of
44 the amount of motion picture production costs paid in this state as follows:

<u>Production costs</u>	<u>Percentage credit</u>
\$250,000 - \$1,000,000	10% 20%
\$1,000,001 - \$3,000,000	15%
More than \$3,000,000 \$1,000,000	20% 30%

B. The department shall not allow in any year tax credits that exceed the aggregate amount prescribed in section 41-1517.

C. The department shall not allow a credit under this section to a taxpayer ~~who~~ THAT has a delinquent tax balance owing to the department under this title or title 42.

D. To qualify for a credit under this section, the motion picture production company must:

1. Employ residents of this state in production as follows:
 - (a) In 2006, twenty-five per cent of full-time employees working in this state must be residents of this state.
 - (b) In 2007, thirty-five per cent of full-time employees working in this state must be residents of this state.
 - (c) In 2008 and every subsequent taxable year, fifty per cent of full-time employees working in this state must be residents of this state.
2. Include in the production credits for each commercial motion picture, other than a commercial advertisement OR MUSIC VIDEO, an acknowledgement that the production was filmed in Arizona.
3. Receive preapproval and postapproval from the department of commerce pursuant to section 41-1517.

E. BEGINNING WITH TAX CREDITS ALLOCATED FOR 2006 PURSUANT TO SECTION 41-1517, SUBSECTION J, A MOTION PICTURE PRODUCTION COMPANY, AT ITS EXPENSE, MAY VOLUNTARILY ENTER INTO A LIMITED MANAGED AUDIT AGREEMENT PURSUANT TO TITLE 42, CHAPTER 2, ARTICLE 7 THAT INCLUDES AN AUDIT OF ITS PRODUCTION COSTS AND OTHER REQUIREMENTS PRESCRIBED BY SECTION 41-1517 AND BY THIS SECTION TO CONFIRM THE AMOUNT OF ANY CREDIT UNDER THIS SECTION. THE REQUEST TO ENTER INTO THE AUDIT MUST BE MADE AFTER THE MOTION PICTURE PRODUCTION COMPANY RECEIVES POSTCERTIFICATION FOR THE CREDIT PURSUANT TO SECTION 41-1517, SUBSECTION O. THE AUDIT MUST BE CONDUCTED BY THE TAXPAYER'S AUTHORIZED REPRESENTATIVE, AS DEFINED BY SECTION 42-2301, WHO IS AN INDEPENDENT CERTIFIED PUBLIC ACCOUNTANT LICENSED IN THIS STATE. THE CERTIFIED PUBLIC ACCOUNTANT AND THE FIRM THE CERTIFIED PUBLIC ACCOUNTANT IS AFFILIATED WITH SHALL NOT REGULARLY PERFORM SERVICES FOR THE MOTION PICTURE PRODUCTION COMPANY OR ITS AFFILIATES. IF THE DIRECTOR ACCEPTS THE FINDINGS OF THE AUDIT AND ISSUES A NOTICE OF DETERMINATION PURSUANT TO SECTION 42-2303 AND THE TAXPAYER TIMELY FILES ITS INCOME TAX RETURN WITH THE APPROPRIATE CREDIT CLAIM FORMS, THE CREDIT AMOUNT ACCEPTED IS NOT SUBJECT TO RECAPTURE, DISALLOWANCE, REDUCTION OR DENIAL WITH RESPECT TO EITHER THE MOTION PICTURE PRODUCTION COMPANY OR ANY SUBSEQUENT TRANSFEREE OF THE CREDIT, AND SUBSECTION H, PARAGRAPH 4 OF THIS SECTION DOES NOT APPLY. THE DIRECTOR'S NOTICE OF DETERMINATION SHALL INCLUDE A WRITTEN CERTIFICATE TO THE TAXPAYER STATING THE AMOUNT OF THE CREDIT AND THAT THE CREDIT IS NOT SUBJECT TO RECAPTURE FROM A

1 TRANSFEREE. THIS SUBSECTION DOES NOT PROHIBIT THE RECAPTURE OF A CREDIT FROM
2 A MOTION PICTURE PRODUCTION COMPANY IF THE COMPANY FAILED TO DISCLOSE
3 MATERIAL INFORMATION DURING THE AUDIT OR FALSIFIED ITS BOOKS OR RECORDS OR
4 OTHERWISE ENGAGED IN AN ACTION THAT PREVENTED AN ACCURATE AUDIT.

5 ~~E.~~ F. Co-owners of a motion picture production company, including
6 corporate partners in a partnership and members of a limited liability
7 company, may allocate the credit allowed under this section among the
8 co-owners on any basis without regard to their proportional ownership
9 interest. The total of the credits allowed all such owners of the motion
10 picture production company may not exceed the amount that would have been
11 allowed for a sole owner of the company.

12 ~~F.~~ G. If the allowable tax credit for a taxpayer exceeds the taxes
13 otherwise due under this title on the claimant's income, or if there are no
14 taxes due under this title, the taxpayer may carry the amount of the claim
15 not used to offset the taxes under this title forward for not more than five
16 consecutive taxable years' income tax liability.

17 ~~G.~~ H. All or part of any unclaimed amount of credit under this
18 section may be sold or otherwise transferred under the following conditions:

19 1. A single sale or transfer may involve one or more transferees, and
20 a transferee may in turn resell or transfer the credit subject to the same
21 conditions of this subsection.

22 2. Both the transferor and transferee must submit a written notice of
23 the transfer to the department within thirty days after the sale or
24 transfer. The transferee's notice shall include a processing fee equal to
25 one per cent of the transferee's tax credit balance or two hundred dollars,
26 whichever is less. The notice shall include:

27 (a) The name of the motion picture production company.

28 (b) The date of the transfer.

29 (c) The amount of the transfer.

30 (d) The transferor's tax credit balance before the transfer and the
31 remaining balance after the transfer.

32 (e) All tax identification numbers for both transferor and transferee.

33 (f) Any other information required by rule.

34 3. A sale or transfer of the credit does not extend the time in which
35 the credit can be used. ~~The carryforward period of time under subsection F~~
36 ~~of this section for a credit that is sold or transferred begins on the date~~
37 ~~the credit was originally earned.~~

38 4. EXCEPT AS PROVIDED BY SUBSECTION E OF THIS SECTION, if a transferor
39 was not qualified or was disqualified from using the credit at the time of
40 the transfer, the department shall either disallow the credit claimed by a
41 transferee or recapture the credit from the transferee through any authorized
42 collection method. The transferee's recourse is against the transferor.

43 5. In the case of any failure to comply with this subsection, the
44 department shall disallow the tax credit until the taxpayer is in full
45 compliance.

1 FILES ITS INCOME TAX RETURN WITH THE APPROPRIATE CREDIT CLAIM FORMS, THE
2 CREDIT AMOUNT ACCEPTED IS NOT SUBJECT TO RECAPTURE, DISALLOWANCE, REDUCTION
3 OR DENIAL WITH RESPECT TO EITHER THE TAXPAYER OR ANY SUBSEQUENT TRANSFEREE OF
4 THE CREDIT, AND SUBSECTION F, PARAGRAPH 4 OF THIS SECTION DOES NOT APPLY.
5 THE DIRECTOR'S NOTICE OF DETERMINATION SHALL INCLUDE A WRITTEN CERTIFICATE TO
6 THE TAXPAYER STATING THE AMOUNT OF THE CREDIT AND THAT THE CREDIT IS NOT
7 SUBJECT TO RECAPTURE FROM A TRANSFEREE. THIS SUBSECTION DOES NOT PREVENT THE
8 RECAPTURE OF A CREDIT IF THE TAXPAYER FAILED TO DISCLOSE MATERIAL INFORMATION
9 DURING THE AUDIT OR FALSIFIED ITS BOOKS OR RECORDS OR OTHERWISE ENGAGED IN AN
10 ACTION THAT PREVENTED AN ACCURATE AUDIT.

11 D. CO-OWNERS OF A BUSINESS, INCLUDING CORPORATE PARTNERS IN A
12 PARTNERSHIP AND MEMBERS OF A LIMITED LIABILITY COMPANY, MAY ALLOCATE THE
13 CREDIT ALLOWED UNDER THIS SECTION AMONG THE CO-OWNERS ON ANY BASIS WITHOUT
14 REGARD TO THEIR PROPORTIONAL OWNERSHIP INTEREST. THE TOTAL OF THE CREDITS
15 ALLOWED ALL SUCH OWNERS MAY NOT EXCEED THE AMOUNT THAT WOULD HAVE BEEN
16 ALLOWED FOR A SOLE OWNER OF THE COMPANY.

17 E. IF THE ALLOWABLE TAX CREDIT FOR A TAXPAYER EXCEEDS THE TAXES
18 OTHERWISE DUE UNDER THIS TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO
19 TAXES DUE UNDER THIS TITLE, THE TAXPAYER MAY CARRY THE AMOUNT OF THE CLAIM
20 NOT USED TO OFFSET THE TAXES UNDER THIS TITLE FORWARD FOR NOT MORE THAN FIVE
21 CONSECUTIVE TAXABLE YEARS' INCOME TAX LIABILITY.

22 F. ALL OR PART OF ANY UNCLAIMED AMOUNT OF CREDIT UNDER THIS SECTION
23 MAY BE SOLD OR OTHERWISE TRANSFERRED UNDER THE FOLLOWING CONDITIONS:

24 1. A SINGLE SALE OR TRANSFER MAY INVOLVE ONE OR MORE TRANSFEREES, AND
25 A TRANSFEREE MAY IN TURN RESELL OR TRANSFER THE CREDIT SUBJECT TO THE SAME
26 CONDITIONS OF THIS SUBSECTION.

27 2. BOTH THE TRANSFEROR AND TRANSFEREE MUST SUBMIT A WRITTEN NOTICE OF
28 THE TRANSFER TO THE DEPARTMENT WITHIN THIRTY DAYS AFTER THE SALE OR TRANSFER.
29 THE TRANSFEREE'S NOTICE SHALL INCLUDE A PROCESSING FEE EQUAL TO ONE PER CENT
30 OF THE TRANSFEREE'S TAX CREDIT BALANCE OR TWO HUNDRED DOLLARS, WHICHEVER IS
31 LESS. THE NOTICE SHALL INCLUDE:

- 32 (a) THE NAME OF THE TAXPAYER.
- 33 (b) THE DATE OF THE TRANSFER.
- 34 (c) THE AMOUNT OF THE TRANSFER.
- 35 (d) THE TRANSFEROR'S TAX CREDIT BALANCE BEFORE THE TRANSFER AND THE
36 REMAINING BALANCE AFTER THE TRANSFER.
- 37 (e) ALL TAX IDENTIFICATION NUMBERS FOR BOTH TRANSFEROR AND TRANSFEREE.
- 38 (f) ANY OTHER INFORMATION REQUIRED BY RULE.

39 3. A SALE OR TRANSFER OF THE CREDIT DOES NOT EXTEND THE TIME IN WHICH
40 THE CREDIT CAN BE USED. THE CARRYFORWARD PERIOD OF TIME UNDER SUBSECTION E
41 OF THIS SECTION FOR A CREDIT THAT IS SOLD OR TRANSFERRED BEGINS ON THE DATE
42 THE CREDIT WAS ORIGINALLY EARNED.

43 4. EXCEPT AS PROVIDED BY SUBSECTION C OF THIS SECTION, IF A TRANSFEROR
44 WAS NOT QUALIFIED OR WAS DISQUALIFIED FROM USING THE CREDIT AT THE TIME OF
45 THE TRANSFER, THE DEPARTMENT SHALL EITHER DISALLOW THE CREDIT CLAIMED BY A

1 TRANSFEREE OR RECAPTURE THE CREDIT FROM THE TRANSFEREE THROUGH ANY AUTHORIZED
2 COLLECTION METHOD. THE TRANSFEREE'S RECOURSE IS AGAINST THE TRANSFEROR.

3 5. IN THE CASE OF ANY FAILURE TO COMPLY WITH THIS SUBSECTION, THE
4 DEPARTMENT SHALL DISALLOW THE TAX CREDIT UNTIL THE TAXPAYER IS IN FULL
5 COMPLIANCE.

6 G. THE DEPARTMENT SHALL MAINTAIN ANNUAL DATA ON THE TOTAL AMOUNT OF
7 MONIES CREDITED PURSUANT TO THIS SECTION, AND SHALL PROVIDE THAT DATA TO THE
8 DEPARTMENT OF COMMERCE ON REQUEST.

9 H. THE DEPARTMENT OF REVENUE, WITH THE COOPERATION OF THE DEPARTMENT
10 OF COMMERCE, SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS AND PROCEDURES
11 AS NECESSARY TO EFFECTUATE THE PURPOSES OF THIS SECTION.

12 I. A TAXPAYER THAT CLAIMS A CREDIT FOR MOTION PICTURE INFRASTRUCTURE
13 PROJECTS UNDER THIS SECTION SHALL NOT CLAIM A CREDIT UNDER SECTION 43-1163
14 FOR THE SAME COSTS.

15 J. THE CREDIT ALLOWED BY THIS SECTION IS IN LIEU OF ANY ALLOWANCE FOR
16 STATE TAX PURPOSES OF A DEDUCTION OF THOSE EXPENSES ALLOWED BY THE INTERNAL
17 REVENUE CODE.

18 K. FOR THE PURPOSES OF THIS SECTION, "MOTION PICTURE INFRASTRUCTURE
19 PROJECT" HAS THE SAME MEANING AS DEFINED IN SECTION 41-1517.01.

20 Sec. 11. Purpose

21 Pursuant to section 43-223, Arizona Revised Statutes, the purpose of
22 sections 43-1075.01 and 43-1163.01, Arizona Revised Statutes, as added by
23 this act, is to encourage taxpayers to invest in motion picture
24 infrastructure projects to support the development of the motion picture
25 industry in this state.

26 Sec. 12. Authorization for funding employment positions

27 Pursuant to section 41-1517, subsection U, Arizona Revised Statutes, as
28 amended by this act, the department of commerce is authorized to allocate the
29 sum of \$180,000 of the dollar amount of income tax credits in fiscal year
30 2007-2008 for up to two full-time equivalent positions dedicated solely for
31 the purposes of section 41-1517, Arizona Revised Statutes, as amended by this
32 act, and section 41-1517.01, Arizona Revised Statutes, as added by this act.