

REFERENCE TITLE: tax credits; deductions; exemptions; sunset

State of Arizona  
House of Representatives  
Forty-ninth Legislature  
Second Regular Session  
2010

## HB 2597

Introduced by  
Representatives Chabin, Meza: Antenori, Ash, Court, Crandall, Crump,  
Driggs, Goodale, Jones, Konopnicki, Montenegro, Weiers JP, Senators Paton,  
Pierce S

### AN ACT

AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5039; AMENDING SECTIONS 42-5061, 42-5159, 43-223, 43-1071, 43-1072, 43-1072.01 AND 43-1073, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1074.01, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2008, CHAPTER 290, SECTION 2; AMENDING SECTION 43-1074.01, ARIZONA REVISED STATUTES, AS ADDED BY LAWS 2008, CHAPTER 290, SECTION 4; AMENDING SECTIONS 43-1075.01, 43-1077, 43-1078, 43-1079, 43-1079.01, 43-1080, 43-1081, 43-1081.01, 43-1083, 43-1084, 43-1087, 43-1088, 43-1089, 43-1089.01, 43-1089.02, 43-1090, 43-1163.01, 43-1165, 43-1166, 43-1167 AND 43-1167.01, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1168, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2008, CHAPTER 290, SECTION 5; AMENDING SECTION 43-1168, ARIZONA REVISED STATUTES, AS ADDED BY LAWS 2008, CHAPTER 290, SECTION 7; AMENDING SECTIONS 43-1169, 43-1170, 43-1170.01, 43-1175, 43-1176, 43-1178 AND 43-1181, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:

2 Section 1. Title 42, chapter 5, article 1, Arizona Revised Statutes,  
3 is amended by adding section 42-5039, to read:

4 42-5039. Requirements for new transaction privilege and use tax  
5 deductions and exemptions established by the  
6 legislature

7 ANY NEW TRANSACTION PRIVILEGE AND USE TAX DEDUCTION OR EXEMPTION THAT  
8 IS ESTABLISHED BY THE LEGISLATURE UNDER THIS CHAPTER SHALL INCLUDE IN ITS  
9 ENABLING LEGISLATION A SPECIFIC REPEAL DATE FOR THE DEDUCTION OR EXEMPTION.  
10 THE SPECIFIC REPEAL DATE SHALL BE FROM AND AFTER DECEMBER 31 OF THE SEVENTH  
11 FULL CALENDAR YEAR FOLLOWING THE DATE THE DEDUCTION OR EXEMPTION IS ENACTED.

12 Sec. 2. Section 42-5061, Arizona Revised Statutes, is amended to read:  
13 42-5061. Retail classification; definitions

14 A. The retail classification is comprised of the business of selling  
15 tangible personal property at retail. The tax base for the retail  
16 classification is the gross proceeds of sales or gross income derived from  
17 the business. The tax imposed on the retail classification does not apply to  
18 the gross proceeds of sales or gross income from:

19 1. Professional or personal service occupations or businesses which  
20 involve sales or transfers of tangible personal property only as  
21 inconsequential elements.

22 2. Services rendered in addition to selling tangible personal property  
23 at retail.

24 3. Sales of warranty or service contracts. The storage, use or  
25 consumption of tangible personal property provided under the conditions of  
26 such contracts is subject to tax under section 42-5156.

27 4. Sales of tangible personal property by any nonprofit organization  
28 organized and operated exclusively for charitable purposes and recognized by  
29 the United States internal revenue service under section 501(c)(3) of the  
30 internal revenue code.

31 5. Sales to persons engaged in business classified under the  
32 restaurant classification of articles used by human beings for food, drink or  
33 condiment, whether simple, mixed or compounded.

34 6. Business activity which is properly included in any other business  
35 classification which is taxable under THIS article ~~2 of this chapter~~.

36 7. The sale of stocks and bonds.

37 8. Drugs and medical oxygen, including delivery hose, mask or tent,  
38 regulator and tank, on the prescription of a member of the medical, dental or  
39 veterinarian profession who is licensed by law to administer such substances.

40 9. Prosthetic appliances as defined in section 23-501 prescribed or  
41 recommended by a health professional WHO IS licensed pursuant to title 32,  
42 chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.

43 10. Insulin, insulin syringes and glucose test strips.

44 11. Prescription eyeglasses or contact lenses.

45 12. Hearing aids as defined in section 36-1901.

1           13. Durable medical equipment which has a centers for medicare and  
2 medicaid services common procedure code, is designated reimbursable by  
3 medicare, is prescribed by a person who is licensed under title 32, chapter  
4 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and  
5 customarily used to serve a medical purpose, is generally not useful to a  
6 person in the absence of illness or injury and is appropriate for use in the  
7 home.

8           14. Sales to nonresidents of this state for use outside this state if  
9 the vendor ships or delivers the tangible personal property out of this  
10 state.

11           15. Food, as provided in and subject to the conditions of article 3 of  
12 this chapter and section 42-5074.

13           16. Items purchased with United States department of agriculture food  
14 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.  
15 958) or food instruments issued under section 17 of the child nutrition act  
16 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code  
17 section 1786).

18           17. Textbooks by any bookstore that are required by any state  
19 university or community college.

20           18. Food and drink to a person who is engaged in business which is  
21 classified under the restaurant classification and which provides such food  
22 and drink without monetary charge to its employees for their own consumption  
23 on the premises during the employees' hours of employment.

24           19. Articles of food, drink or condiment and accessory tangible  
25 personal property to a school district if such articles and accessory  
26 tangible personal property are to be prepared and served to persons for  
27 consumption on the premises of a public school within the district during  
28 school hours.

29           20. Lottery tickets or shares pursuant to title 5, chapter 5,  
30 article 1.

31           21. The sale of precious metal bullion and monetized bullion to the  
32 ultimate consumer, but the sale of coins or other forms of money for  
33 manufacture into jewelry or works of art is subject to the tax. For the  
34 purposes of this paragraph:

35           (a) "Monetized bullion" means coins and other forms of money which are  
36 manufactured from gold, silver or other metals and which have been or are  
37 used as a medium of exchange in this or another state, the United States or a  
38 foreign nation.

39           (b) "Precious metal bullion" means precious metal, including gold,  
40 silver, platinum, rhodium and palladium, which has been smelted or refined so  
41 that its value depends on its contents and not on its form.

42           22. Motor vehicle fuel and use fuel which are subject to a tax imposed  
43 under title 28, chapter 16, article 1, sales of use fuel to a holder of a  
44 valid single trip use fuel tax permit issued under section 28-5739, sales of  
45 aviation fuel which are subject to the tax imposed under section 28-8344 and

1 sales of jet fuel which are subject to the tax imposed under article 8 of  
2 this chapter.

3 23. Tangible personal property sold to a person engaged in the business  
4 of leasing or renting such property under the personal property rental  
5 classification if such property is to be leased or rented by such person.

6 24. Tangible personal property sold in interstate or foreign commerce  
7 if prohibited from being so taxed by the Constitution of the United States or  
8 the constitution of this state.

9 25. Tangible personal property sold to:

10 (a) A qualifying hospital as defined in section 42-5001.

11 (b) A qualifying health care organization as defined in section  
12 42-5001 if the tangible personal property is used by the organization solely  
13 to provide health and medical related educational and charitable services.

14 (c) A qualifying health care organization as defined in section  
15 42-5001 if the organization is dedicated to providing educational,  
16 therapeutic, rehabilitative and family medical education training for blind,  
17 visually impaired and multihandicapped children from the time of birth to age  
18 twenty-one.

19 (d) A qualifying community health center as defined in section  
20 42-5001.

21 (e) A nonprofit charitable organization that has qualified under  
22 section 501(c)(3) of the internal revenue code and that regularly serves  
23 meals to the needy and indigent on a continuing basis at no cost.

24 (f) For taxable periods beginning from and after June 30, 2001, a  
25 nonprofit charitable organization that has qualified under section 501(c)(3)  
26 of the internal revenue code and that provides residential apartment housing  
27 for low income persons over sixty-two years of age in a facility that  
28 qualifies for a federal housing subsidy, if the tangible personal property is  
29 used by the organization solely to provide residential apartment housing for  
30 low income persons over sixty-two years of age in a facility that qualifies  
31 for a federal housing subsidy.

32 26. Magazines or other periodicals or other publications by this state  
33 to encourage tourist travel.

34 27. Tangible personal property sold to a person that is subject to tax  
35 under this article by reason of being engaged in business classified under  
36 the prime contracting classification under section 42-5075, or to a  
37 subcontractor working under the control of a prime contractor that is subject  
38 to tax under article 1 of this chapter, if the property so sold is any of the  
39 following:

40 (a) Incorporated or fabricated by the person into any real property,  
41 structure, project, development or improvement as part of the business.

42 (b) Used in environmental response or remediation activities under  
43 section 42-5075, subsection B, paragraph 6.

44 (c) Incorporated or fabricated by the person into any lake facility  
45 development in a commercial enhancement reuse district under conditions

1 prescribed for the deduction allowed by section 42-5075, subsection B,  
2 paragraph 8.

3 28. The sale of a motor vehicle to:

4 (a) A nonresident of this state if the purchaser's state of residence  
5 does not allow a corresponding use tax exemption to the tax imposed by  
6 article 1 of this chapter and if the nonresident has secured a special ninety  
7 day nonresident registration permit for the vehicle as prescribed by sections  
8 28-2154 and 28-2154.01.

9 (b) An enrolled member of an Indian tribe who resides on the Indian  
10 reservation established for that tribe.

11 29. Tangible personal property purchased in this state by a nonprofit  
12 charitable organization that has qualified under section 501(c)(3) of the  
13 United States internal revenue code and that engages in and uses such  
14 property exclusively in programs for mentally or physically handicapped  
15 persons if the programs are exclusively for training, job placement,  
16 rehabilitation or testing.

17 30. Sales of tangible personal property by a nonprofit organization  
18 that is exempt from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6)  
19 of the internal revenue code if the organization is associated with a major  
20 league baseball team or a national touring professional golfing association  
21 and no part of the organization's net earnings inures to the benefit of any  
22 private shareholder or individual.

23 31. Sales of commodities, as defined by title 7 United States Code  
24 section 2, that are consigned for resale in a warehouse in this state in or  
25 from which the commodity is deliverable on a contract for future delivery  
26 subject to the rules of a commodity market regulated by the United States  
27 commodity futures trading commission.

28 32. Sales of tangible personal property by a nonprofit organization  
29 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),  
30 501(c)(7) or 501(c)(8) of the internal revenue code if the organization  
31 sponsors or operates a rodeo featuring primarily farm and ranch animals and  
32 no part of the organization's net earnings inures to the benefit of any  
33 private shareholder or individual.

34 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other  
35 propagative material to persons who use those items to commercially produce  
36 agricultural, horticultural, viticultural or floricultural crops in this  
37 state.

38 34. Machinery, equipment, technology or related supplies that are only  
39 useful to assist a person who is physically disabled as defined in section  
40 46-191, has a developmental disability as defined in section 36-551 or has a  
41 head injury as defined in section 41-3201 to be more independent and  
42 functional.

43 35. Sales of tangible personal property that is shipped or delivered  
44 directly to a destination outside the United States for use in that foreign  
45 country.

1           36. Sales of natural gas or liquefied petroleum gas used to propel a  
2 motor vehicle.

3           37. Paper machine clothing, such as forming fabrics and dryer felts,  
4 sold to a paper manufacturer and directly used or consumed in paper  
5 manufacturing.

6           38. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity  
7 sold to a qualified environmental technology manufacturer, producer or  
8 processor as defined in section 41-1514.02 and directly used or consumed in  
9 the generation or provision of on-site power or energy solely for  
10 environmental technology manufacturing, producing or processing or  
11 environmental protection. This paragraph shall apply for fifteen full  
12 consecutive calendar or fiscal years from the date the first paper  
13 manufacturing machine is placed in service. In the case of an environmental  
14 technology manufacturer, producer or processor who does not manufacture  
15 paper, the time period shall begin with the date the first manufacturing,  
16 processing or production equipment is placed in service.

17           39. Sales of liquid, solid or gaseous chemicals used in manufacturing,  
18 processing, fabricating, mining, refining, metallurgical operations, research  
19 and development and, beginning on January 1, 1999, printing, if using or  
20 consuming the chemicals, alone or as part of an integrated system of  
21 chemicals, involves direct contact with the materials from which the product  
22 is produced for the purpose of causing or permitting a chemical or physical  
23 change to occur in the materials as part of the production process. This  
24 paragraph does not include chemicals that are used or consumed in activities  
25 such as packaging, storage or transportation but does not affect any  
26 deduction for such chemicals that is otherwise provided by this section. For  
27 the purposes of this paragraph, "printing" means a commercial printing  
28 operation and includes job printing, engraving, embossing, copying and  
29 bookbinding.

30           40. Through December 31, 1994, personal property liquidation  
31 transactions, conducted by a personal property liquidator. From and after  
32 December 31, 1994, personal property liquidation transactions shall be  
33 taxable under this section provided that nothing in this subsection shall be  
34 construed to authorize the taxation of casual activities or transactions  
35 under this chapter. For the purposes of this paragraph:

36           (a) "Personal property liquidation transaction" means a sale of  
37 personal property made by a personal property liquidator acting solely on  
38 behalf of the owner of the personal property sold at the dwelling of the  
39 owner or upon the death of any owner, on behalf of the surviving spouse, if  
40 any, any devisee or heir or the personal representative of the estate of the  
41 deceased, if one has been appointed.

42           (b) "Personal property liquidator" means a person who is retained to  
43 conduct a sale in a personal property liquidation transaction.

44           41. Sales of food, drink and condiment for consumption within the  
45 premises of any prison, jail or other institution under the jurisdiction of

1 the state department of corrections, the department of public safety, the  
2 department of juvenile corrections or a county sheriff.

3 42. A motor vehicle and any repair and replacement parts and tangible  
4 personal property becoming a part of such motor vehicle sold to a motor  
5 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4  
6 and who is engaged in the business of leasing or renting such property.

7 43. Livestock and poultry feed, salts, vitamins and other additives for  
8 livestock or poultry consumption that are sold to persons who are engaged in  
9 producing livestock, poultry, or livestock or poultry products or who are  
10 engaged in feeding livestock or poultry commercially. For the purposes of  
11 this paragraph, "poultry" includes ratites.

12 44. Sales of implants used as growth promotants and injectable  
13 medicines, not already exempt under paragraph 8 of this subsection, for  
14 livestock or poultry owned by or in possession of persons who are engaged in  
15 producing livestock, poultry, or livestock or poultry products or who are  
16 engaged in feeding livestock or poultry commercially. For the purposes of  
17 this paragraph, "poultry" includes ratites.

18 45. Sales of motor vehicles at auction to nonresidents of this state  
19 for use outside this state if the vehicles are shipped or delivered out of  
20 this state, regardless of where title to the motor vehicles passes or its  
21 free on board point.

22 46. Tangible personal property sold to a person engaged in business and  
23 subject to tax under the transient lodging classification if the tangible  
24 personal property is a personal hygiene item or articles used by human beings  
25 for food, drink or condiment, except alcoholic beverages, which are furnished  
26 without additional charge to and intended to be consumed by the transient  
27 during the transient's occupancy.

28 47. Sales of alternative fuel, as defined in section 1-215, to a used  
29 oil fuel burner who has received a permit to burn used oil or used oil fuel  
30 under section 49-426 or 49-480.

31 48. Sales of materials that are purchased by or for publicly funded  
32 libraries including school district libraries, charter school libraries,  
33 community college libraries, state university libraries or federal, state,  
34 county or municipal libraries for use by the public as follows:

35 (a) Printed or photographic materials, beginning August 7, 1985.

36 (b) Electronic or digital media materials, beginning July 17, 1994.

37 49. Tangible personal property sold to a commercial airline and  
38 consisting of food, beverages and condiments and accessories used for serving  
39 the food and beverages, if those items are to be provided without additional  
40 charge to passengers for consumption in flight. For the purposes of this  
41 paragraph, "commercial airline" means a person holding a federal certificate  
42 of public convenience and necessity or foreign air carrier permit for air  
43 transportation to transport persons, property or United States mail in  
44 intrastate, interstate or foreign commerce.

1           50. Sales of alternative fuel vehicles if the vehicle was manufactured  
2 as a diesel fuel vehicle and converted to operate on alternative fuel and  
3 equipment that is installed in a conventional diesel fuel motor vehicle to  
4 convert the vehicle to operate on an alternative fuel, as defined in section  
5 1-215.

6           51. Sales of any spirituous, vinous or malt liquor by a person that is  
7 licensed in this state as a wholesaler by the department of liquor licenses  
8 and control pursuant to title 4, chapter 2, article 1.

9           52. Sales of tangible personal property to be incorporated or installed  
10 as part of environmental response or remediation activities under section  
11 42-5075, subsection B, paragraph 6.

12           53. Sales of tangible personal property by a nonprofit organization  
13 that is exempt from taxation under section 501(c)(6) of the internal revenue  
14 code if the organization produces, organizes or promotes cultural or civic  
15 related festivals or events and no part of the organization's net earnings  
16 inures to the benefit of any private shareholder or individual.

17           54. Through August 31, 2014, sales of Arizona centennial medallions by  
18 the historical advisory commission.

19           55. Application services that are designed to assess or test student  
20 learning or to promote curriculum design or enhancement purchased by or for  
21 any school district, charter school, community college or state university.  
22 For the purposes of this paragraph:

23           (a) "Application services" means software applications provided  
24 remotely using hypertext transfer protocol or another network protocol.

25           (b) "Curriculum design or enhancement" means planning, implementing or  
26 reporting on courses of study, lessons, assignments or other learning  
27 activities.

28           B. In addition to the deductions from the tax base prescribed by  
29 subsection A of this section, the gross proceeds of sales or gross income  
30 derived from sales of the following categories of tangible personal property  
31 shall be deducted from the tax base:

32           1. Machinery, or equipment, used directly in manufacturing,  
33 processing, fabricating, job printing, refining or metallurgical operations.  
34 The terms "manufacturing", "processing", "fabricating", "job printing",  
35 "refining" and "metallurgical" as used in this paragraph refer to and include  
36 those operations commonly understood within their ordinary meaning.  
37 "Metallurgical operations" includes leaching, milling, precipitating,  
38 smelting and refining.

39           2. Mining machinery, or equipment, used directly in the process of  
40 extracting ores or minerals from the earth for commercial purposes, including  
41 equipment required to prepare the materials for extraction and handling,  
42 loading or transporting such extracted material to the surface. "Mining"  
43 includes underground, surface and open pit operations for extracting ores and  
44 minerals.

1           3. Tangible personal property sold to persons engaged in business  
2 classified under the telecommunications classification and consisting of  
3 central office switching equipment, switchboards, private branch exchange  
4 equipment, microwave radio equipment and carrier equipment including optical  
5 fiber, coaxial cable and other transmission media which are components of  
6 carrier systems.

7           4. Machinery, equipment or transmission lines used directly in  
8 producing or transmitting electrical power, but not including distribution.  
9 Transformers and control equipment used at transmission substation sites  
10 constitute equipment used in producing or transmitting electrical power.

11           5. Neat animals, horses, asses, sheep, ratites, swine or goats used or  
12 to be used as breeding or production stock, including sales of breedings or  
13 ownership shares in such animals used for breeding or production.

14           6. Pipes or valves four inches in diameter or larger used to transport  
15 oil, natural gas, artificial gas, water or coal slurry, including compressor  
16 units, regulators, machinery and equipment, fittings, seals and any other  
17 part that is used in operating the pipes or valves.

18           7. Aircraft, navigational and communication instruments and other  
19 accessories and related equipment sold to:

20           (a) A person holding a federal certificate of public convenience and  
21 necessity, a supplemental air carrier certificate under federal aviation  
22 regulations (14 Code of Federal Regulations part 121) or a foreign air  
23 carrier permit for air transportation for use as or in conjunction with or  
24 becoming a part of aircraft to be used to transport persons, property or  
25 United States mail in intrastate, interstate or foreign commerce.

26           (b) Any foreign government for use by such government outside of this  
27 state.

28           (c) Persons who are not residents of this state and who will not use  
29 such property in this state other than in removing such property from this  
30 state. This subdivision also applies to corporations that are not  
31 incorporated in this state, regardless of maintaining a place of business in  
32 this state, if the principal corporate office is located outside this state  
33 and the property will not be used in this state other than in removing the  
34 property from this state.

35           8. Machinery, tools, equipment and related supplies used or consumed  
36 directly in repairing, remodeling or maintaining aircraft, aircraft engines  
37 or aircraft component parts by or on behalf of a certificated or licensed  
38 carrier of persons or property.

39           9. Railroad rolling stock, rails, ties and signal control equipment  
40 used directly to transport persons or property.

41           10. Machinery or equipment used directly to drill for oil or gas or  
42 used directly in the process of extracting oil or gas from the earth for  
43 commercial purposes.

44           11. Buses or other urban mass transit vehicles which are used directly  
45 to transport persons or property for hire or pursuant to a governmentally

1 adopted and controlled urban mass transportation program and which are sold  
2 to bus companies holding a federal certificate of convenience and necessity  
3 or operated by any city, town or other governmental entity or by any person  
4 contracting with such governmental entity as part of a governmentally adopted  
5 and controlled program to provide urban mass transportation.

6 12. Groundwater measuring devices required under section 45-604.

7 13. New machinery and equipment consisting of tractors, tractor-drawn  
8 implements, self-powered implements, machinery and equipment necessary for  
9 extracting milk, and machinery and equipment necessary for cooling milk and  
10 livestock, and drip irrigation lines not already exempt under paragraph 6 of  
11 this subsection and that are used for commercial production of agricultural,  
12 horticultural, viticultural and floricultural crops and products in this  
13 state. For the purposes of this paragraph:

14 (a) "New machinery and equipment" means machinery and equipment which  
15 have never been sold at retail except pursuant to leases or rentals which do  
16 not total two years or more.

17 (b) "Self-powered implements" includes machinery and equipment that  
18 are electric-powered.

19 14. Machinery or equipment used in research and development. For the  
20 purposes of this paragraph, "research and development" means basic and  
21 applied research in the sciences and engineering, and designing, developing  
22 or testing prototypes, processes or new products, including research and  
23 development of computer software that is embedded in or an integral part of  
24 the prototype or new product or that is required for machinery or equipment  
25 otherwise exempt under this section to function effectively. Research and  
26 development do not include manufacturing quality control, routine consumer  
27 product testing, market research, sales promotion, sales service, research in  
28 social sciences or psychology, computer software research that is not  
29 included in the definition of research and development, or other  
30 nontechnological activities or technical services.

31 15. Machinery and equipment that are purchased by or on behalf of the  
32 owners of a soundstage complex and primarily used for motion picture,  
33 multimedia or interactive video production in the complex. This paragraph  
34 applies only if the initial construction of the soundstage complex begins  
35 after June 30, 1996 and before January 1, 2002 and the machinery and  
36 equipment are purchased before the expiration of five years after the start  
37 of initial construction. For the purposes of this paragraph:

38 (a) "Motion picture, multimedia or interactive video production"  
39 includes products for theatrical and television release, educational  
40 presentations, electronic retailing, documentaries, music videos, industrial  
41 films, CD-ROM, video game production, commercial advertising and television  
42 episode production and other genres that are introduced through developing  
43 technology.

44 (b) "Soundstage complex" means a facility of multiple stages including  
45 production offices, construction shops and related areas, prop and costume

1 shops, storage areas, parking for production vehicles and areas that are  
2 leased to businesses that complement the production needs and orientation of  
3 the overall facility.

4 16. Tangible personal property that is used by either of the following  
5 to receive, store, convert, produce, generate, decode, encode, control or  
6 transmit telecommunications information:

7 (a) Any direct broadcast satellite television or data transmission  
8 service that operates pursuant to 47 Code of Federal Regulations part 25.

9 (b) Any satellite television or data transmission facility, if both of  
10 the following conditions are met:

11 (i) Over two-thirds of the transmissions, measured in megabytes,  
12 transmitted by the facility during the test period were transmitted to or on  
13 behalf of one or more direct broadcast satellite television or data  
14 transmission services that operate pursuant to 47 Code of Federal Regulations  
15 part 25.

16 (ii) Over two-thirds of the transmissions, measured in megabytes,  
17 transmitted by or on behalf of those direct broadcast television or data  
18 transmission services during the test period were transmitted by the facility  
19 to or on behalf of those services.

20 For the purposes of subdivision (b) of this paragraph, "test period" means  
21 the three hundred sixty-five day period beginning on the later of the date on  
22 which the tangible personal property is purchased or the date on which the  
23 direct broadcast satellite television or data transmission service first  
24 transmits information to its customers.

25 17. Clean rooms that are used for manufacturing, processing,  
26 fabrication or research and development, as defined in paragraph 14 of this  
27 subsection, of semiconductor products. For the purposes of this paragraph,  
28 "clean room" means all property that comprises or creates an environment  
29 where humidity, temperature, particulate matter and contamination are  
30 precisely controlled within specified parameters, without regard to whether  
31 the property is actually contained within that environment or whether any of  
32 the property is affixed to or incorporated into real property. Clean room:

33 (a) Includes the integrated systems, fixtures, piping, movable  
34 partitions, lighting and all property that is necessary or adapted to reduce  
35 contamination or to control airflow, temperature, humidity, chemical purity  
36 or other environmental conditions or manufacturing tolerances, as well as the  
37 production machinery and equipment operating in conjunction with the clean  
38 room environment.

39 (b) Does not include the building or other permanent, nonremovable  
40 component of the building that houses the clean room environment.

41 18. Machinery and equipment used directly in the feeding of poultry,  
42 the environmental control of housing for poultry, the movement of eggs within  
43 a production and packaging facility or the sorting or cooling of eggs. This  
44 exemption does not apply to vehicles used for transporting eggs.

1           19. Machinery or equipment, including related structural components,  
2 that is employed in connection with manufacturing, processing, fabricating,  
3 job printing, refining, mining, natural gas pipelines, metallurgical  
4 operations, telecommunications, producing or transmitting electricity or  
5 research and development and that is used directly to meet or exceed rules or  
6 regulations adopted by the federal energy regulatory commission, the United  
7 States environmental protection agency, the United States nuclear regulatory  
8 commission, the Arizona department of environmental quality or a political  
9 subdivision of this state to prevent, monitor, control or reduce land, water  
10 or air pollution.

11           20. Machinery and equipment that are sold to a person engaged in the  
12 commercial production of livestock, livestock products or agricultural,  
13 horticultural, viticultural or floricultural crops or products in this state  
14 and that are used directly and primarily to prevent, monitor, control or  
15 reduce air, water or land pollution.

16           21. Machinery or equipment that enables a television station to  
17 originate and broadcast or to receive and broadcast digital television  
18 signals and that was purchased to facilitate compliance with the  
19 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States  
20 Code section 336) and the federal communications commission order issued  
21 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does  
22 not exempt any of the following:

23           (a) Repair or replacement parts purchased for the machinery or  
24 equipment described in this paragraph.

25           (b) Machinery or equipment purchased to replace machinery or equipment  
26 for which an exemption was previously claimed and taken under this paragraph.

27           (c) Any machinery or equipment purchased after the television station  
28 has ceased analog broadcasting, or purchased after November 1, 2009,  
29 whichever occurs first.

30           22. Qualifying equipment that is purchased from and after June 30, 2004  
31 through June 30, 2014 by a qualified business under section 41-1516 for  
32 harvesting or the initial processing of qualifying forest products removed  
33 from qualifying projects as defined in section 41-1516. To qualify for this  
34 deduction, the qualified business at the time of purchase must present its  
35 certification approved by the department.

36           23. Machinery, equipment and other tangible personal property used  
37 directly in motion picture production by a motion picture production company.  
38 To qualify for this deduction, at the time of purchase, the motion picture  
39 production company must present to the retailer its certificate that is  
40 issued pursuant to section 42-5009, subsection H and that establishes its  
41 qualification for the deduction.

42           C. The deductions provided by subsection B of this section do not  
43 include sales of:

44           1. Expendable materials. For the purposes of this paragraph,  
45 expendable materials do not include any of the categories of tangible

1 personal property specified in subsection B of this section regardless of the  
2 cost or useful life of that property.

3 2. Janitorial equipment and hand tools.

4 3. Office equipment, furniture and supplies.

5 4. Tangible personal property used in selling or distributing  
6 activities, other than the telecommunications transmissions described in  
7 subsection B, paragraph 16 of this section.

8 5. Motor vehicles required to be licensed by this state, except buses  
9 or other urban mass transit vehicles specifically exempted pursuant to  
10 subsection B, paragraph 11 of this section, without regard to the use of such  
11 motor vehicles.

12 6. Shops, buildings, docks, depots and all other materials of whatever  
13 kind or character not specifically included as exempt.

14 7. Motors and pumps used in drip irrigation systems.

15 D. In addition to the deductions from the tax base prescribed by  
16 subsection A of this section, there shall be deducted from the tax base the  
17 gross proceeds of sales or gross income derived from sales of machinery,  
18 equipment, materials and other tangible personal property used directly and  
19 predominantly to construct a qualified environmental technology  
20 manufacturing, producing or processing facility as described in section  
21 41-1514.02. This subsection applies for ten full consecutive calendar or  
22 fiscal years after the start of initial construction.

23 E. In computing the tax base, gross proceeds of sales or gross income  
24 from retail sales of heavy trucks and trailers does not include any amount  
25 attributable to federal excise taxes imposed by 26 United States Code section  
26 4051.

27 F. In computing the tax base, gross proceeds of sales or gross income  
28 from the sale of use fuel, as defined in section 28-5601, does not include  
29 any amount attributable to federal excise taxes imposed by 26 United States  
30 Code section 4091.

31 G. If a person is engaged in an occupation or business to which  
32 subsection A of this section applies, the person's books shall be kept so as  
33 to show separately the gross proceeds of sales of tangible personal property  
34 and the gross income from sales of services, and if not so kept the tax shall  
35 be imposed on the total of the person's gross proceeds of sales of tangible  
36 personal property and gross income from services.

37 H. If a person is engaged in the business of selling tangible personal  
38 property at both wholesale and retail, the tax under this section applies  
39 only to the gross proceeds of the sales made other than at wholesale if the  
40 person's books are kept so as to show separately the gross proceeds of sales  
41 of each class, and if the books are not so kept, the tax under this section  
42 applies to the gross proceeds of every sale so made.

43 I. A person who engages in manufacturing, baling, crating, boxing,  
44 barreling, canning, bottling, sacking, preserving, processing or otherwise  
45 preparing for sale or commercial use any livestock, agricultural or

1 horticultural product or any other product, article, substance or commodity  
2 and who sells the product of such business at retail in this state is deemed,  
3 as to such sales, to be engaged in business classified under the retail  
4 classification. This subsection does not apply to businesses classified  
5 under the:

- 6 1. Transporting classification.
- 7 2. Utilities classification.
- 8 3. Telecommunications classification.
- 9 4. Pipeline classification.
- 10 5. Private car line classification.
- 11 6. Publication classification.
- 12 7. Job printing classification.
- 13 8. Prime contracting classification.
- 14 9. Owner builder sales classification.
- 15 10. Restaurant classification.

16 J. The gross proceeds of sales or gross income derived from the  
17 following shall be deducted from the tax base for the retail classification:

- 18 1. Sales made directly to the United States government or its  
19 departments or agencies by a manufacturer, modifier, assembler or repairer.
- 20 2. Sales made directly to a manufacturer, modifier, assembler or  
21 repairer if such sales are of any ingredient or component part of products  
22 sold directly to the United States government or its departments or agencies  
23 by the manufacturer, modifier, assembler or repairer.
- 24 3. Overhead materials or other tangible personal property that is used  
25 in performing a contract between the United States government and a  
26 manufacturer, modifier, assembler or repairer, including property used in  
27 performing a subcontract with a government contractor who is a manufacturer,  
28 modifier, assembler or repairer, to which title passes to the government  
29 under the terms of the contract or subcontract.
- 30 4. Sales of overhead materials or other tangible personal property to  
31 a manufacturer, modifier, assembler or repairer if the gross proceeds of  
32 sales or gross income derived from the property by the manufacturer,  
33 modifier, assembler or repairer will be exempt under paragraph 3 of this  
34 subsection.

35 K. There shall be deducted from the tax base fifty per cent of the  
36 gross proceeds or gross income from any sale of tangible personal property  
37 made directly to the United States government or its departments or agencies,  
38 which is not deducted under subsection J of this section.

39 L. The department shall require every person claiming a deduction  
40 provided by subsection J or K of this section to file on forms prescribed by  
41 the department at such times as the department directs a sworn statement  
42 disclosing the name of the purchaser and the exact amount of sales on which  
43 the exclusion or deduction is claimed.

44 M. In computing the tax base, gross proceeds of sales or gross income  
45 does not include:

1           1. A manufacturer's cash rebate on the sales price of a motor vehicle  
2 if the buyer assigns the buyer's right in the rebate to the retailer.

3           2. The waste tire disposal fee imposed pursuant to section 44-1302.

4           N. There shall be deducted from the tax base the amount received from  
5 sales of solar energy devices. The retailer shall register with the  
6 department as a solar energy retailer. By registering, the retailer  
7 acknowledges that it will make its books and records relating to sales of  
8 solar energy devices available to the department for examination.

9           O. In computing the tax base in the case of the sale or transfer of  
10 wireless telecommunications equipment as an inducement to a customer to enter  
11 into or continue a contract for telecommunications services that are taxable  
12 under section 42-5064, gross proceeds of sales or gross income does not  
13 include any sales commissions or other compensation received by the retailer  
14 as a result of the customer entering into or continuing a contract for the  
15 telecommunications services.

16           P. For the purposes of this section, a sale of wireless  
17 telecommunications equipment to a person who holds the equipment for sale or  
18 transfer to a customer as an inducement to enter into or continue a contract  
19 for telecommunications services that are taxable under section 42-5064 is  
20 considered to be a sale for resale in the regular course of business.

21           Q. Retail sales of prepaid calling cards or prepaid authorization  
22 numbers for telecommunications services, including sales of reauthorization  
23 of a prepaid card or authorization number, are subject to tax under this  
24 section.

25           R. For the purposes of this section, the diversion of gas from a  
26 pipeline by a person engaged in the business of:

27           1. Operating a natural or artificial gas pipeline, for the sole  
28 purpose of fueling compressor equipment to pressurize the pipeline, is not a  
29 sale of the gas to the operator of the pipeline.

30           2. Converting natural gas into liquefied natural gas, for the sole  
31 purpose of fueling compressor equipment used in the conversion process, is  
32 not a sale of gas to the operator of the compressor equipment.

33           S. If a seller is entitled to a deduction pursuant to subsection B,  
34 paragraph 16, subdivision (b) of this section, the department may require the  
35 purchaser to establish that the requirements of subsection B, paragraph 16,  
36 subdivision (b) of this section have been satisfied. If the purchaser cannot  
37 establish that the requirements of subsection B, paragraph 16, subdivision  
38 (b) of this section have been satisfied, the purchaser is liable in an amount  
39 equal to any tax, penalty and interest which the seller would have been  
40 required to pay under article 1 of this chapter if the seller had not made a  
41 deduction pursuant to subsection B, paragraph 16, subdivision (b) of this  
42 section. Payment of the amount under this subsection exempts the purchaser  
43 from liability for any tax imposed under article 4 of this chapter and  
44 related to the tangible personal property purchased. The amount shall be  
45 treated as transaction privilege tax to the purchaser and as tax revenues

1 collected from the seller to designate the distribution base pursuant to  
2 section 42-5029.

3 T. For the purposes of section 42-5032.01, the department shall  
4 separately account for revenues collected under the retail classification  
5 from businesses selling tangible personal property at retail:

6 1. On the premises of a multipurpose facility that is owned, leased or  
7 operated by the tourism and sports authority pursuant to title 5, chapter 8.

8 2. At professional football contests that are held in a stadium  
9 located on the campus of an institution under the jurisdiction of the Arizona  
10 board of regents.

11 U. In computing the tax base for the sale of a motor vehicle to a  
12 nonresident of this state, if the purchaser's state of residence allows a  
13 corresponding use tax exemption to the tax imposed by article 1 of this  
14 chapter and the rate of the tax in the purchaser's state of residence is  
15 lower than the rate prescribed in article 1 of this chapter or if the  
16 purchaser's state of residence does not impose an excise tax, and the  
17 nonresident has secured a special ninety day nonresident registration permit  
18 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall  
19 be deducted from the tax base a portion of the gross proceeds or gross income  
20 from the sale so that the amount of transaction privilege tax that is paid in  
21 this state is equal to the excise tax that is imposed by the purchaser's  
22 state of residence on the nonexempt sale or use of the motor vehicle.

23 V. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE GROSS  
24 PROCEEDS OR GROSS INCOME FROM THE RETAIL SALES OF TANGIBLE PERSONAL PROPERTY  
25 IN THE FOLLOWING CATEGORIES SHALL NOT BE DEDUCTED FROM THE TAX BASE PURSUANT  
26 TO THIS SECTION FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31,  
27 2017:

28 (a) SUBSECTION A, PARAGRAPHS 3, 4, 7, 8, 9, 10, 11, 12, 13, 14, 15,  
29 16, 17, 19, 20, 21, 22, 24, 25, 26, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37,  
30 38, 39, 40, 41, 42, 43, 44, 45, 47, 48, 49, 50, 51, 52, 53, 54 AND 55 OF THIS  
31 SECTION.

32 (b) SUBSECTION B, PARAGRAPHS 1, 2, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13,  
33 14, 15, 16, 17, 18, 19, 20, 21, 22 AND 23 OF THIS SECTION.

34 ~~V.~~ W. For the purposes of this section:

35 1. "Aircraft" includes:

36 (a) An airplane flight simulator that is approved by the federal  
37 aviation administration for use as a phase II or higher flight simulator  
38 under appendix H, 14 Code of Federal Regulations part 121.

39 (b) Tangible personal property that is permanently affixed or attached  
40 as a component part of an aircraft that is owned or operated by a  
41 certificated or licensed carrier of persons or property.

42 2. "Other accessories and related equipment" includes aircraft  
43 accessories and equipment such as ground service equipment that physically  
44 contact aircraft at some point during the overall carrier operation.

1           3. "Selling at retail" means a sale for any purpose other than for  
2 resale in the regular course of business in the form of tangible personal  
3 property, but transfer of possession, lease and rental as used in the  
4 definition of sale mean only such transactions as are found on investigation  
5 to be in lieu of sales as defined without the words lease or rental.

6           ~~W.~~ X. For the purposes of subsection J of this section:

7           1. "Assembler" means a person who unites or combines products, wares  
8 or articles of manufacture so as to produce a change in form or substance  
9 without changing or altering the component parts.

10           2. "Manufacturer" means a person who is principally engaged in the  
11 fabrication, production or manufacture of products, wares or articles for use  
12 from raw or prepared materials, imparting to those materials new forms,  
13 qualities, properties and combinations.

14           3. "Modifier" means a person who reworks, changes or adds to products,  
15 wares or articles of manufacture.

16           4. "Overhead materials" means tangible personal property, the gross  
17 proceeds of sales or gross income derived from which would otherwise be  
18 included in the retail classification, and which are used or consumed in the  
19 performance of a contract, the cost of which is charged to an overhead  
20 expense account and allocated to various contracts based upon generally  
21 accepted accounting principles and consistent with government contract  
22 accounting standards.

23           5. "Repairer" means a person who restores or renews products, wares or  
24 articles of manufacture.

25           6. "Subcontract" means an agreement between a contractor and any  
26 person who is not an employee of the contractor for furnishing of supplies or  
27 services that, in whole or in part, are necessary to the performance of one  
28 or more government contracts, or under which any portion of the contractor's  
29 obligation under one or more government contracts is performed, undertaken or  
30 assumed and that includes provisions causing title to overhead materials or  
31 other tangible personal property used in the performance of the subcontract  
32 to pass to the government or that includes provisions incorporating such  
33 title passing clauses in a government contract into the subcontract.

34           Sec. 3. Section 42-5159, Arizona Revised Statutes, is amended to read:

35           42-5159. Exemptions

36           A. The tax levied by this article does not apply to the storage, use  
37 or consumption in this state of the following described tangible personal  
38 property:

39           1. Tangible personal property sold in this state, the gross receipts  
40 from the sale of which are included in the measure of the tax imposed by  
41 articles 1 and 2 of this chapter.

42           2. Tangible personal property the sale or use of which has already  
43 been subjected to an excise tax at a rate equal to or exceeding the tax  
44 imposed by this article under the laws of another state of the United States.  
45 If the excise tax imposed by the other state is at a rate less than the tax

1 imposed by this article, the tax imposed by this article is reduced by the  
2 amount of the tax already imposed by the other state.

3 3. Tangible personal property, the storage, use or consumption of  
4 which the constitution or laws of the United States prohibit this state from  
5 taxing or to the extent that the rate or imposition of tax is  
6 unconstitutional under the laws of the United States.

7 4. Tangible personal property which directly enters into and becomes  
8 an ingredient or component part of any manufactured, fabricated or processed  
9 article, substance or commodity for sale in the regular course of business.

10 5. Motor vehicle fuel and use fuel, the sales, distribution or use of  
11 which in this state is subject to the tax imposed under title 28, chapter 16,  
12 article 1, use fuel which is sold to or used by a person holding a valid  
13 single trip use fuel tax permit issued under section 28-5739, aviation fuel,  
14 the sales, distribution or use of which in this state is subject to the tax  
15 imposed under section 28-8344, and jet fuel, the sales, distribution or use  
16 of which in this state is subject to the tax imposed under article 8 of this  
17 chapter.

18 6. Tangible personal property brought into this state by an individual  
19 who was a nonresident at the time the property was purchased for storage, use  
20 or consumption by the individual if the first actual use or consumption of  
21 the property was outside this state, unless the property is used in  
22 conducting a business in this state.

23 7. Purchases of implants used as growth promotants and injectable  
24 medicines, not already exempt under paragraph 16 of this subsection, for  
25 livestock and poultry owned by, or in possession of, persons who are engaged  
26 in producing livestock, poultry, or livestock or poultry products, or who are  
27 engaged in feeding livestock or poultry commercially. For the purposes of  
28 this paragraph, "poultry" includes ratites.

29 8. Livestock, poultry, supplies, feed, salts, vitamins and other  
30 additives for use or consumption in the businesses of farming, ranching and  
31 feeding livestock or poultry, not including fertilizers, herbicides and  
32 insecticides. For the purposes of this paragraph, "poultry" includes  
33 ratites.

34 9. Seeds, seedlings, roots, bulbs, cuttings and other propagative  
35 material for use in commercially producing agricultural, horticultural,  
36 viticultural or floricultural crops in this state.

37 10. Tangible personal property not exceeding two hundred dollars in any  
38 one month purchased by an individual at retail outside the continental limits  
39 of the United States for the individual's own personal use and enjoyment.

40 11. Advertising supplements which are intended for sale with newspapers  
41 published in this state and which have already been subjected to an excise  
42 tax under the laws of another state in the United States which equals or  
43 exceeds the tax imposed by this article.

44 12. Materials that are purchased by or for publicly funded libraries  
45 including school district libraries, charter school libraries, community

1 college libraries, state university libraries or federal, state, county or  
2 municipal libraries for use by the public as follows:

3 (a) Printed or photographic materials, beginning August 7, 1985.

4 (b) Electronic or digital media materials, beginning July 17, 1994.

5 13. Tangible personal property purchased by:

6 (a) A hospital organized and operated exclusively for charitable  
7 purposes, no part of the net earnings of which inures to the benefit of any  
8 private shareholder or individual.

9 (b) A hospital operated by this state or a political subdivision of  
10 this state.

11 (c) A licensed nursing care institution or a licensed residential care  
12 institution or a residential care facility operated in conjunction with a  
13 licensed nursing care institution or a licensed kidney dialysis center, which  
14 provides medical services, nursing services or health related services and is  
15 not used or held for profit.

16 (d) A qualifying health care organization, as defined in section  
17 42-5001, if the tangible personal property is used by the organization solely  
18 to provide health and medical related educational and charitable services.

19 (e) A qualifying health care organization as defined in section  
20 42-5001 if the organization is dedicated to providing educational,  
21 therapeutic, rehabilitative and family medical education training for blind,  
22 visually impaired and multihandicapped children from the time of birth to age  
23 twenty-one.

24 (f) A nonprofit charitable organization that has qualified under  
25 section 501(c)(3) of the United States internal revenue code and that engages  
26 in and uses such property exclusively in programs for mentally or physically  
27 handicapped persons if the programs are exclusively for training, job  
28 placement, rehabilitation or testing.

29 (g) A person that is subject to tax under article 1 of this chapter by  
30 reason of being engaged in business classified under the prime contracting  
31 classification under section 42-5075, or a subcontractor working under the  
32 control of a prime contractor, if the tangible personal property is any of  
33 the following:

34 (i) Incorporated or fabricated by the contractor into a structure,  
35 project, development or improvement in fulfillment of a contract.

36 (ii) Used in environmental response or remediation activities under  
37 section 42-5075, subsection B, paragraph 6.

38 (iii) Incorporated or fabricated by the person into any lake facility  
39 development in a commercial enhancement reuse district under conditions  
40 prescribed for the deduction allowed by section 42-5075, subsection B,  
41 paragraph 8.

42 (h) A nonprofit charitable organization that has qualified under  
43 section 501(c)(3) of the internal revenue code if the property is purchased  
44 from the parent or an affiliate organization that is located outside this  
45 state.

1 (i) A qualifying community health center as defined in section  
2 42-5001.

3 (j) A nonprofit charitable organization that has qualified under  
4 section 501(c)(3) of the internal revenue code and that regularly serves  
5 meals to the needy and indigent on a continuing basis at no cost.

6 (k) A person engaged in business under the transient lodging  
7 classification if the property is a personal hygiene item or articles used by  
8 human beings for food, drink or condiment, except alcoholic beverages, which  
9 are furnished without additional charge to and intended to be consumed by the  
10 transient during the transient's occupancy.

11 (l) For taxable periods beginning from and after June 30, 2001, a  
12 nonprofit charitable organization that has qualified under section 501(c)(3)  
13 of the internal revenue code and that provides residential apartment housing  
14 for low income persons over sixty-two years of age in a facility that  
15 qualifies for a federal housing subsidy, if the tangible personal property is  
16 used by the organization solely to provide residential apartment housing for  
17 low income persons over sixty-two years of age in a facility that qualifies  
18 for a federal housing subsidy.

19 14. Commodities, as defined by title 7 United States Code section 2,  
20 that are consigned for resale in a warehouse in this state in or from which  
21 the commodity is deliverable on a contract for future delivery subject to the  
22 rules of a commodity market regulated by the United States commodity futures  
23 trading commission.

24 15. Tangible personal property sold by:

25 (a) Any nonprofit organization organized and operated exclusively for  
26 charitable purposes and recognized by the United States internal revenue  
27 service under section 501(c)(3) of the internal revenue code.

28 (b) A nonprofit organization that is exempt from taxation under  
29 section 501(c)(3) or 501(c)(6) of the internal revenue code if the  
30 organization is associated with a major league baseball team or a national  
31 touring professional golfing association and no part of the organization's  
32 net earnings inures to the benefit of any private shareholder or individual.

33 (c) A nonprofit organization that is exempt from taxation under  
34 section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the  
35 internal revenue code if the organization sponsors or operates a rodeo  
36 featuring primarily farm and ranch animals and no part of the organization's  
37 net earnings inures to the benefit of any private shareholder or individual.

38 16. Drugs and medical oxygen, including delivery hose, mask or tent,  
39 regulator and tank, on the prescription of a member of the medical, dental or  
40 veterinarian profession who is licensed by law to administer such substances.

41 17. Prosthetic appliances, as defined in section 23-501, prescribed or  
42 recommended by a person who is licensed, registered or otherwise  
43 professionally credentialed as a physician, dentist, podiatrist,  
44 chiropractor, naturopath, homeopath, nurse or optometrist.

- 1           18. Prescription eyeglasses and contact lenses.
- 2           19. Insulin, insulin syringes and glucose test strips.
- 3           20. Hearing aids as defined in section 36-1901.
- 4           21. Durable medical equipment which has a centers for medicare and  
5           medicaid services common procedure code, is designated reimbursable by  
6           medicare, is prescribed by a person who is licensed under title 32, chapter  
7           7, 13, 17 or 29, can withstand repeated use, is primarily and customarily  
8           used to serve a medical purpose, is generally not useful to a person in the  
9           absence of illness or injury and is appropriate for use in the home.
- 10          22. Food, as provided in and subject to the conditions of article 3 of  
11          this chapter and section 42-5074.
- 12          23. Items purchased with United States department of agriculture food  
13          stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.  
14          958) or food instruments issued under section 17 of the child nutrition act  
15          (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code  
16          section 1786).
- 17          24. Food and drink provided without monetary charge by a taxpayer which  
18          is subject to section 42-5074 to its employees for their own consumption on  
19          the premises during the employees' hours of employment.
- 20          25. Tangible personal property that is used or consumed in a business  
21          subject to section 42-5074 for human food, drink or condiment, whether  
22          simple, mixed or compounded.
- 23          26. Food, drink or condiment and accessory tangible personal property  
24          that are acquired for use by or provided to a school district or charter  
25          school if they are to be either served or prepared and served to persons for  
26          consumption on the premises of a public school in a school district during  
27          school hours.
- 28          27. Lottery tickets or shares purchased pursuant to title 5, chapter 5,  
29          article 1.
- 30          28. Textbooks, sold by a bookstore, that are required by any state  
31          university or community college.
- 32          29. Magazines, other periodicals or other publications produced by this  
33          state to encourage tourist travel.
- 34          30. Paper machine clothing, such as forming fabrics and dryer felts,  
35          purchased by a paper manufacturer and directly used or consumed in paper  
36          manufacturing.
- 37          31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity  
38          purchased by a qualified environmental technology manufacturer, producer or  
39          processor as defined in section 41-1514.02 and directly used or consumed in  
40          the generation or provision of on-site power or energy solely for  
41          environmental technology manufacturing, producing or processing or  
42          environmental protection. This paragraph shall apply for fifteen full  
43          consecutive calendar or fiscal years from the date the first paper  
44          manufacturing machine is placed in service. In the case of an environmental  
45          technology manufacturer, producer or processor who does not manufacture

1 paper, the time period shall begin with the date the first manufacturing,  
2 processing or production equipment is placed in service.

3 32. Motor vehicles that are removed from inventory by a motor vehicle  
4 dealer as defined in section 28-4301 and that are provided to:

5 (a) Charitable or educational institutions that are exempt from  
6 taxation under section 501(c)(3) of the internal revenue code.

7 (b) Public educational institutions.

8 (c) State universities or affiliated organizations of a state  
9 university if no part of the organization's net earnings inures to the  
10 benefit of any private shareholder or individual.

11 33. Natural gas or liquefied petroleum gas used to propel a motor  
12 vehicle.

13 34. Machinery, equipment, technology or related supplies that are only  
14 useful to assist a person who is physically disabled as defined in section  
15 46-191, has a developmental disability as defined in section 36-551 or has a  
16 head injury as defined in section 41-3201 to be more independent and  
17 functional.

18 35. Liquid, solid or gaseous chemicals used in manufacturing,  
19 processing, fabricating, mining, refining, metallurgical operations, research  
20 and development and, beginning on January 1, 1999, printing, if using or  
21 consuming the chemicals, alone or as part of an integrated system of  
22 chemicals, involves direct contact with the materials from which the product  
23 is produced for the purpose of causing or permitting a chemical or physical  
24 change to occur in the materials as part of the production process. This  
25 paragraph does not include chemicals that are used or consumed in activities  
26 such as packaging, storage or transportation but does not affect any  
27 exemption for such chemicals that is otherwise provided by this section. For  
28 the purposes of this paragraph, "printing" means a commercial printing  
29 operation and includes job printing, engraving, embossing, copying and  
30 bookbinding.

31 36. Food, drink and condiment purchased for consumption within the  
32 premises of any prison, jail or other institution under the jurisdiction of  
33 the state department of corrections, the department of public safety, the  
34 department of juvenile corrections or a county sheriff.

35 37. A motor vehicle and any repair and replacement parts and tangible  
36 personal property becoming a part of such motor vehicle sold to a motor  
37 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4  
38 and who is engaged in the business of leasing or renting such property.

39 38. Tangible personal property which is or directly enters into and  
40 becomes an ingredient or component part of cards used as prescription plan  
41 identification cards.

42 39. Overhead materials or other tangible personal property that is used  
43 in performing a contract between the United States government and a  
44 manufacturer, modifier, assembler or repairer, including property used in  
45 performing a subcontract with a government contractor who is a manufacturer,

1 modifier, assembler or repairer, to which title passes to the government  
2 under the terms of the contract or subcontract. For the purposes of this  
3 paragraph:

4 (a) "Overhead materials" means tangible personal property, the gross  
5 proceeds of sales or gross income derived from which would otherwise be  
6 included in the retail classification, and which are used or consumed in the  
7 performance of a contract, the cost of which is charged to an overhead  
8 expense account and allocated to various contracts based upon generally  
9 accepted accounting principles and consistent with government contract  
10 accounting standards.

11 (b) "Subcontract" means an agreement between a contractor and any  
12 person who is not an employee of the contractor for furnishing of supplies or  
13 services that, in whole or in part, are necessary to the performance of one  
14 or more government contracts, or under which any portion of the contractor's  
15 obligation under one or more government contracts is performed, undertaken or  
16 assumed, and that includes provisions causing title to overhead materials or  
17 other tangible personal property used in the performance of the subcontract  
18 to pass to the government or that includes provisions incorporating such  
19 title passing clauses in a government contract into the subcontract.

20 40. Through December 31, 1994, tangible personal property sold pursuant  
21 to a personal property liquidation transaction, as defined in section  
22 42-5061. From and after December 31, 1994, tangible personal property sold  
23 pursuant to a personal property liquidation transaction, as defined in  
24 section 42-5061, if the gross proceeds of the sales were included in the  
25 measure of the tax imposed by article 1 of this chapter or if the personal  
26 property liquidation was a casual activity or transaction.

27 41. Wireless telecommunications equipment that is held for sale or  
28 transfer to a customer as an inducement to enter into or continue a contract  
29 for telecommunications services that are taxable under section 42-5064.

30 42. Alternative fuel, as defined in section 1-215, purchased by a used  
31 oil fuel burner who has received a permit to burn used oil or used oil fuel  
32 under section 49-426 or 49-480.

33 43. Tangible personal property purchased by a commercial airline and  
34 consisting of food, beverages and condiments and accessories used for serving  
35 the food and beverages, if those items are to be provided without additional  
36 charge to passengers for consumption in flight. For the purposes of this  
37 paragraph, "commercial airline" means a person holding a federal certificate  
38 of public convenience and necessity or foreign air carrier permit for air  
39 transportation to transport persons, property or United States mail in  
40 intrastate, interstate or foreign commerce.

41 44. Alternative fuel vehicles if the vehicle was manufactured as a  
42 diesel fuel vehicle and converted to operate on alternative fuel and  
43 equipment that is installed in a conventional diesel fuel motor vehicle to  
44 convert the vehicle to operate on an alternative fuel, as defined in section  
45 1-215.

1           45. Gas diverted from a pipeline, by a person engaged in the business  
2 of:

3           (a) Operating a natural or artificial gas pipeline, and used or  
4 consumed for the sole purpose of fueling compressor equipment that  
5 pressurizes the pipeline.

6           (b) Converting natural gas into liquefied natural gas, and used or  
7 consumed for the sole purpose of fueling compressor equipment used in the  
8 conversion process.

9           46. Tangible personal property that is excluded, exempt or deductible  
10 from transaction privilege tax pursuant to section 42-5063.

11           47. Tangible personal property purchased to be incorporated or  
12 installed as part of environmental response or remediation activities under  
13 section 42-5075, subsection B, paragraph 6.

14           48. Tangible personal property sold by a nonprofit organization that is  
15 exempt from taxation under section 501(c)(6) of the internal revenue code if  
16 the organization produces, organizes or promotes cultural or civic related  
17 festivals or events and no part of the organization's net earnings inures to  
18 the benefit of any private shareholder or individual.

19           49. Prepared food, drink or condiment donated by a restaurant as  
20 classified in section 42-5074, subsection A to a nonprofit charitable  
21 organization that has qualified under section 501(c)(3) of the internal  
22 revenue code and that regularly serves meals to the needy and indigent on a  
23 continuing basis at no cost.

24           50. Application services that are designed to assess or test student  
25 learning or to promote curriculum design or enhancement purchased by or for  
26 any school district, charter school, community college or state university.  
27 For the purposes of this paragraph:

28           (a) "Application services" means software applications provided  
29 remotely using hypertext transfer protocol or another network protocol.

30           (b) "Curriculum design or enhancement" means planning, implementing or  
31 reporting on courses of study, lessons, assignments or other learning  
32 activities.

33           B. In addition to the exemptions allowed by subsection A of this  
34 section, the following categories of tangible personal property are also  
35 exempt:

36           1. Machinery, or equipment, used directly in manufacturing,  
37 processing, fabricating, job printing, refining or metallurgical operations.  
38 The terms "manufacturing", "processing", "fabricating", "job printing",  
39 "refining" and "metallurgical" as used in this paragraph refer to and include  
40 those operations commonly understood within their ordinary meaning.  
41 "Metallurgical operations" includes leaching, milling, precipitating,  
42 smelting and refining.

43           2. Machinery, or equipment, used directly in the process of extracting  
44 ores or minerals from the earth for commercial purposes, including equipment  
45 required to prepare the materials for extraction and handling, loading or

1 transporting such extracted material to the surface. "Mining" includes  
2 underground, surface and open pit operations for extracting ores and  
3 minerals.

4 3. Tangible personal property sold to persons engaged in business  
5 classified under the telecommunications classification under section 42-5064  
6 and consisting of central office switching equipment, switchboards, private  
7 branch exchange equipment, microwave radio equipment and carrier equipment  
8 including optical fiber, coaxial cable and other transmission media which are  
9 components of carrier systems.

10 4. Machinery, equipment or transmission lines used directly in  
11 producing or transmitting electrical power, but not including distribution.  
12 Transformers and control equipment used at transmission substation sites  
13 constitute equipment used in producing or transmitting electrical power.

14 5. Neat animals, horses, asses, sheep, ratites, swine or goats used or  
15 to be used as breeding or production stock, including sales of breedings or  
16 ownership shares in such animals used for breeding or production.

17 6. Pipes or valves four inches in diameter or larger used to transport  
18 oil, natural gas, artificial gas, water or coal slurry, including compressor  
19 units, regulators, machinery and equipment, fittings, seals and any other  
20 part that is used in operating the pipes or valves.

21 7. Aircraft, navigational and communication instruments and other  
22 accessories and related equipment sold to:

23 (a) A person holding a federal certificate of public convenience and  
24 necessity, a supplemental air carrier certificate under federal aviation  
25 regulations (14 Code of Federal Regulations part 121) or a foreign air  
26 carrier permit for air transportation for use as or in conjunction with or  
27 becoming a part of aircraft to be used to transport persons, property or  
28 United States mail in intrastate, interstate or foreign commerce.

29 (b) Any foreign government for use by such government outside of this  
30 state, or sold to persons who are not residents of this state and who will  
31 not use such property in this state other than in removing such property from  
32 this state.

33 8. Machinery, tools, equipment and related supplies used or consumed  
34 directly in repairing, remodeling or maintaining aircraft, aircraft engines  
35 or aircraft component parts by or on behalf of a certificated or licensed  
36 carrier of persons or property.

37 9. Rolling stock, rails, ties and signal control equipment used  
38 directly to transport persons or property.

39 10. Machinery or equipment used directly to drill for oil or gas or  
40 used directly in the process of extracting oil or gas from the earth for  
41 commercial purposes.

42 11. Buses or other urban mass transit vehicles which are used directly  
43 to transport persons or property for hire or pursuant to a governmentally  
44 adopted and controlled urban mass transportation program and which are sold  
45 to bus companies holding a federal certificate of convenience and necessity

1 or operated by any city, town or other governmental entity or by any person  
2 contracting with such governmental entity as part of a governmentally adopted  
3 and controlled program to provide urban mass transportation.

4 12. Groundwater measuring devices required under section 45-604.

5 13. New machinery and equipment consisting of tractors, tractor-drawn  
6 implements, self-powered implements, machinery and equipment necessary for  
7 extracting milk, and machinery and equipment necessary for cooling milk and  
8 livestock, and drip irrigation lines not already exempt under paragraph 6 of  
9 this subsection and that are used for commercial production of agricultural,  
10 horticultural, viticultural and floricultural crops and products in this  
11 state. For the purposes of this paragraph:

12 (a) "New machinery and equipment" means machinery or equipment which  
13 has never been sold at retail except pursuant to leases or rentals which do  
14 not total two years or more.

15 (b) "Self-powered implements" includes machinery and equipment that  
16 are electric-powered.

17 14. Machinery or equipment used in research and development. For the  
18 purposes of this paragraph, "research and development" means basic and  
19 applied research in the sciences and engineering, and designing, developing  
20 or testing prototypes, processes or new products, including research and  
21 development of computer software that is embedded in or an integral part of  
22 the prototype or new product or that is required for machinery or equipment  
23 otherwise exempt under this section to function effectively. Research and  
24 development do not include manufacturing quality control, routine consumer  
25 product testing, market research, sales promotion, sales service, research in  
26 social sciences or psychology, computer software research that is not  
27 included in the definition of research and development, or other  
28 nontechnological activities or technical services.

29 15. Machinery and equipment that are purchased by or on behalf of the  
30 owners of a soundstage complex and primarily used for motion picture,  
31 multimedia or interactive video production in the complex. This paragraph  
32 applies only if the initial construction of the soundstage complex begins  
33 after June 30, 1996 and before January 1, 2002 and the machinery and  
34 equipment are purchased before the expiration of five years after the start  
35 of initial construction. For the purposes of this paragraph:

36 (a) "Motion picture, multimedia or interactive video production"  
37 includes products for theatrical and television release, educational  
38 presentations, electronic retailing, documentaries, music videos, industrial  
39 films, CD-ROM, video game production, commercial advertising and television  
40 episode production and other genres that are introduced through developing  
41 technology.

42 (b) "Soundstage complex" means a facility of multiple stages including  
43 production offices, construction shops and related areas, prop and costume  
44 shops, storage areas, parking for production vehicles and areas that are

1 leased to businesses that complement the production needs and orientation of  
2 the overall facility.

3 16. Tangible personal property that is used by either of the following  
4 to receive, store, convert, produce, generate, decode, encode, control or  
5 transmit telecommunications information:

6 (a) Any direct broadcast satellite television or data transmission  
7 service that operates pursuant to 47 Code of Federal Regulations part 25.

8 (b) Any satellite television or data transmission facility, if both of  
9 the following conditions are met:

10 (i) Over two-thirds of the transmissions, measured in megabytes,  
11 transmitted by the facility during the test period were transmitted to or on  
12 behalf of one or more direct broadcast satellite television or data  
13 transmission services that operate pursuant to 47 Code of Federal Regulations  
14 part 25.

15 (ii) Over two-thirds of the transmissions, measured in megabytes,  
16 transmitted by or on behalf of those direct broadcast television or data  
17 transmission services during the test period were transmitted by the facility  
18 to or on behalf of those services.

19 For the purposes of subdivision (b) of this paragraph, "test period" means  
20 the three hundred sixty-five day period beginning on the later of the date on  
21 which the tangible personal property is purchased or the date on which the  
22 direct broadcast satellite television or data transmission service first  
23 transmits information to its customers.

24 17. Clean rooms that are used for manufacturing, processing,  
25 fabrication or research and development, as defined in paragraph 14 of this  
26 subsection, of semiconductor products. For the purposes of this paragraph,  
27 "clean room" means all property that comprises or creates an environment  
28 where humidity, temperature, particulate matter and contamination are  
29 precisely controlled within specified parameters, without regard to whether  
30 the property is actually contained within that environment or whether any of  
31 the property is affixed to or incorporated into real property. Clean room:

32 (a) Includes the integrated systems, fixtures, piping, movable  
33 partitions, lighting and all property that is necessary or adapted to reduce  
34 contamination or to control airflow, temperature, humidity, chemical purity  
35 or other environmental conditions or manufacturing tolerances, as well as the  
36 production machinery and equipment operating in conjunction with the clean  
37 room environment.

38 (b) Does not include the building or other permanent, nonremovable  
39 component of the building that houses the clean room environment.

40 18. Machinery and equipment that are used directly in the feeding of  
41 poultry, the environmental control of housing for poultry, the movement of  
42 eggs within a production and packaging facility or the sorting or cooling of  
43 eggs. This exemption does not apply to vehicles used for transporting eggs.

44 19. Machinery or equipment, including related structural components,  
45 that is employed in connection with manufacturing, processing, fabricating,

1 job printing, refining, mining, natural gas pipelines, metallurgical  
2 operations, telecommunications, producing or transmitting electricity or  
3 research and development and that is used directly to meet or exceed rules or  
4 regulations adopted by the federal energy regulatory commission, the United  
5 States environmental protection agency, the United States nuclear regulatory  
6 commission, the Arizona department of environmental quality or a political  
7 subdivision of this state to prevent, monitor, control or reduce land, water  
8 or air pollution.

9 20. Machinery and equipment that are used in the commercial production  
10 of livestock, livestock products or agricultural, horticultural, viticultural  
11 or floricultural crops or products in this state and that are used directly  
12 and primarily to prevent, monitor, control or reduce air, water or land  
13 pollution.

14 21. Machinery or equipment that enables a television station to  
15 originate and broadcast or to receive and broadcast digital television  
16 signals and that was purchased to facilitate compliance with the  
17 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States  
18 Code section 336) and the federal communications commission order issued  
19 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does  
20 not exempt any of the following:

21 (a) Repair or replacement parts purchased for the machinery or  
22 equipment described in this paragraph.

23 (b) Machinery or equipment purchased to replace machinery or equipment  
24 for which an exemption was previously claimed and taken under this paragraph.

25 (c) Any machinery or equipment purchased after the television station  
26 has ceased analog broadcasting, or purchased after November 1, 2009,  
27 whichever occurs first.

28 22. Qualifying equipment that is purchased from and after June 30, 2004  
29 through June 30, 2014 by a qualified business under section 41-1516 for  
30 harvesting or the initial processing of qualifying forest products removed  
31 from qualifying projects as defined in section 41-1516. To qualify for this  
32 exemption, the qualified business must obtain and present its certification  
33 from the department of commerce at the time of purchase.

34 23. Machinery, equipment and other tangible personal property used  
35 directly in motion picture production by a motion picture production company.  
36 To qualify for this exemption, at the time of purchase, the motion picture  
37 production company must present to the retailer its certificate that is  
38 issued pursuant to section 42-5009, subsection H and that establishes its  
39 qualification for the exemption.

40 C. The exemptions provided by subsection B of this section do not  
41 include:

42 1. Expendable materials. For the purposes of this paragraph,  
43 expendable materials do not include any of the categories of tangible  
44 personal property specified in subsection B of this section regardless of the  
45 cost or useful life of that property.

- 1           2. Janitorial equipment and hand tools.
- 2           3. Office equipment, furniture and supplies.
- 3           4. Tangible personal property used in selling or distributing
- 4 activities, other than the telecommunications transmissions described in
- 5 subsection B, paragraph 16 of this section.
- 6           5. Motor vehicles required to be licensed by this state, except buses
- 7 or other urban mass transit vehicles specifically exempted pursuant to
- 8 subsection B, paragraph 11 of this section, without regard to the use of such
- 9 motor vehicles.
- 10          6. Shops, buildings, docks, depots and all other materials of whatever
- 11 kind or character not specifically included as exempt.
- 12          7. Motors and pumps used in drip irrigation systems.
- 13          D. The following shall be deducted in computing the purchase price of
- 14 electricity by a retail electric customer from a utility business:
- 15           1. Revenues received from sales of ancillary services, electric
- 16 distribution services, electric generation services, electric transmission
- 17 services and other services related to providing electricity to a retail
- 18 electric customer who is located outside this state for use outside this
- 19 state if the electricity is delivered to a point of sale outside this state.
- 20           2. Revenues received from providing electricity, including ancillary
- 21 services, electric distribution services, electric generation services,
- 22 electric transmission services and other services related to providing
- 23 electricity with respect to which the transaction privilege tax imposed under
- 24 section 42-5063 has been paid.
- 25          E. The tax levied by this article does not apply to:
- 26           1. The storage, use or consumption in Arizona of machinery, equipment,
- 27 materials or other tangible personal property if used directly and
- 28 predominantly to construct a qualified environmental technology
- 29 manufacturing, producing or processing facility, as described in section
- 30 41-1514.02. This paragraph applies for ten full consecutive calendar or
- 31 fiscal years after the start of initial construction.
- 32           2. The purchase of electricity by a qualified environmental technology
- 33 manufacturer, producer or processor as defined in section 41-1514.02 that is
- 34 used directly in environmental technology manufacturing, producing or
- 35 processing. This paragraph shall apply for fifteen full consecutive calendar
- 36 or fiscal years from the date the first paper manufacturing machine is placed
- 37 in service. In the case of an environmental technology manufacturer,
- 38 producer or processor who does not manufacture paper, the time period shall
- 39 begin with the date the first manufacturing, processing or production
- 40 equipment is placed in service.
- 41           3. The purchase of solar energy devices from a retailer that is
- 42 registered with the department as a solar energy retailer or a solar energy
- 43 contractor.
- 44          F. The following shall be deducted in computing the purchase price of
- 45 electricity by a retail electric customer from a utility business:

1           1. Fees charged by a municipally owned utility to persons constructing  
2 residential, commercial or industrial developments or connecting residential,  
3 commercial or industrial developments to a municipal utility system or  
4 systems if the fees are segregated and used only for capital expansion,  
5 system enlargement or debt service of the utility system or systems.

6           2. Reimbursement or contribution compensation to any person or persons  
7 owning a utility system for property and equipment installed to provide  
8 utility access to, on or across the land of an actual utility consumer if the  
9 property and equipment become the property of the utility. This deduction  
10 shall not exceed the value of such property and equipment.

11           G. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE TANGIBLE  
12 PERSONAL PROPERTY IN THE FOLLOWING CATEGORIES SHALL NOT BE EXEMPT FROM TAX  
13 UNDER THIS SECTION FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31,  
14 2017:

15           (a) SUBSECTION A, PARAGRAPHS 3, 4, 7, 8, 9, 10, 11, 12, 13, 14, 15,  
16 16, 17, 19, 20, 21, 22, 24, 25, 26, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37,  
17 38, 39, 40, 41, 42, 43, 44, 45, 47, 48, 49 AND 50 OF THIS SECTION.

18           (b) SUBSECTION B, PARAGRAPHS 2, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13, 14,  
19 15, 16, 17, 18, 19, 20, 21, 22 AND 23 OF THIS SECTION.

20           ~~G.~~ H. For the purposes of subsection B of this section:

21           1. "Aircraft" includes:

22           (a) An airplane flight simulator that is approved by the federal  
23 aviation administration for use as a phase II or higher flight simulator  
24 under appendix H, 14 Code of Federal Regulations part 121.

25           (b) Tangible personal property that is permanently affixed or attached  
26 as a component part of an aircraft that is owned or operated by a  
27 certificated or licensed carrier of persons or property.

28           2. "Other accessories and related equipment" includes aircraft  
29 accessories and equipment such as ground service equipment that physically  
30 contact aircraft at some point during the overall carrier operation.

31           ~~H.~~ I. For the purposes of subsection D of this section, "ancillary  
32 services", "electric distribution service", "electric generation service",  
33 "electric transmission service" and "other services" have the same meanings  
34 prescribed in section 42-5063.

35           Sec. 4. Section 43-223, Arizona Revised Statutes, is amended to read:

36           43-223. Requirements for new income tax credits established by  
37 the legislature

38           Any new individual or corporate income tax credit that is enacted by  
39 the legislature shall include in its enabling legislation:

40           1. A specific review year for the joint legislative income tax credit  
41 review committee to review the credit. The specific review year shall be the  
42 fifth full calendar year following the date the credit is enacted.

43           2. A SPECIFIC REPEAL DATE FOR THE TAX CREDIT. THE SPECIFIC REPEAL  
44 DATE SHALL BE FROM AND AFTER DECEMBER 31 OF THE SEVENTH FULL CALENDAR YEAR  
45 FOLLOWING THE DATE THE CREDIT IS ENACTED. THE REQUIRED REPEAL DOES NOT

1 AFFECT THE CARRY FORWARD OF ANY TAX CREDIT TO WHICH A TAXPAYER IS ENTITLED.  
2 A TAXPAYER MAY CONTINUE TO APPLY SUCH AMOUNTS CARRIED FORWARD TO SUBSEQUENT  
3 YEARS' INCOME TAX LIABILITIES AS PROVIDED BY THE CREDIT.

4 ~~2-~~ 3. A purpose clause that explains the rationale and objective of  
5 the tax credit.

6 Sec. 5. Section 43-1071, Arizona Revised Statutes, is amended to read:

7 43-1071. Credit for income taxes paid to other states;  
8 definitions

9 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, subject to the  
10 following conditions, residents shall be allowed a credit against the taxes  
11 imposed by this chapter for net income taxes imposed by and paid to another  
12 state or country on income taxable under this chapter:

13 1. The credit shall be allowed only for taxes paid to the other state  
14 or country on income that is derived from sources within that state or  
15 country and that is taxable under its laws irrespective of the residence or  
16 domicile of the recipient.

17 2. The credit shall not be allowed if the other state or country  
18 allows residents of this state a credit against the taxes imposed by that  
19 state or country for taxes paid or payable under this chapter.

20 3. The credit shall not exceed the proportion of the tax payable under  
21 this chapter as the income subject to tax in the other state or country and  
22 also taxable under this title bears to the taxpayer's entire income on which  
23 the tax is imposed by this chapter.

24 B. If any taxes paid to another state or country for which a taxpayer  
25 has been allowed a credit under this section are at any time credited or  
26 refunded to the taxpayer:

27 1. The taxpayer shall immediately report that fact to the department.

28 2. A tax equal to the credit allowed for the taxes credited or  
29 refunded by the other state or country is due and payable from the taxpayer  
30 on notice and demand from the department.

31 3. Interest shall be added to and collected as a part of the tax at  
32 the rate determined pursuant to section 42-1123 from the date the credit was  
33 allowed under this chapter to the date of the notice and demand.

34 4. If the tax and interest are not paid within ten days from the date  
35 of notice and demand, there shall be collected as a part of the tax interest  
36 on the unpaid amount of tax and interest at the rate of twelve per cent a  
37 year from the date of the notice and demand until the amount is paid.

38 C. The credit against the taxes imposed by this chapter for net income  
39 taxes paid to another state or country shall not be allowed to any taxpayer  
40 or any class of taxpayers if the allowances of the credit will result in any  
41 invalid or illegal discrimination against another taxpayer or another class  
42 of taxpayers.

43 D. For taxable years beginning on or after January 1, 2002 AND ENDING  
44 BEFORE JANUARY 1, 2018 and subject to the following conditions, a resident of  
45 this state, who is also considered to be a resident of another state under

1 the laws of the other state, is allowed a credit against the taxes imposed by  
2 this title for net income taxes imposed by and paid to that state on income  
3 taxable under this title as follows:

4 1. The credit is allowed only if the other state taxes the income to  
5 the resident of this state and does not allow the taxpayer a credit against  
6 taxes imposed by that state on that income for taxes paid or payable on that  
7 income under this title.

8 2. The credit is allowed only for the proportion of the taxes paid to  
9 the other state as the income taxable under this title and also subject to  
10 tax in the other state bears to the entire income on which the taxes paid to  
11 the other state are imposed.

12 3. The credit may not exceed the proportion of the tax payable under  
13 this title as the income taxable under this title and also subject to tax in  
14 the other state bears to the entire income taxable under this title.

15 4. For the purpose of the credit allowed under this subsection,  
16 "income taxable under this title and also subject to tax in the other state"  
17 means income that would be sourced to the other state if the other state were  
18 imposing its income tax on the taxpayer as if the taxpayer was a nonresident  
19 of that other state.

20 E. For the purposes of this section, net income taxes imposed by  
21 another country include taxes that qualify for a credit under sections 901  
22 and 903 of the internal revenue code and the regulations under those  
23 sections.

24 F. For the purposes of this section:

25 1. "Entire income on which the other state's or country's tax is  
26 imposed" means the other state's or country's income computed under the  
27 equivalent of section 43-1094 but does not include any exemption allowable  
28 under the equivalent of section 43-1023.

29 2. "Entire income on which the tax is imposed by this chapter" means  
30 Arizona adjusted gross income as defined and computed under section 43-1001  
31 but does not include any exemption allowed under section 43-1023.

32 3. "Income subject to tax in the other state or country and also  
33 taxable under this title" means the portion of income that is included in  
34 entire income on which the tax is imposed ~~under~~ BY this chapter that is also  
35 included in the entire income on which the other state's or country's tax is  
36 imposed. The taxpayer shall increase or reduce the portion of income that is  
37 included in the entire income on which THE tax is imposed ~~under~~ BY this  
38 chapter by any related additions under section 43-1021 and by any related  
39 subtractions under section 43-1022. The taxpayer shall increase or reduce  
40 the portion of income that is included in the entire income on which the  
41 other state's or country's tax is imposed by any related additions and  
42 subtractions under the other state's equivalent of sections 43-1021 and  
43 43-1022, as applicable.

1 4. "Tax payable under this chapter" means the income tax imposed by  
2 this state on the taxpayer's taxable income as defined under section 43-1001  
3 minus all of the following:

- 4 (a) The reduction amount received under section 16-954, subsection A.
- 5 (b) Any tax credit amount claimed under section 16-954, subsection B.
- 6 (c) Any tax credit amount claimed for the taxable year under this  
7 article but not including the credit amount allowed under this section.

8 Sec. 6. Section 43-1072, Arizona Revised Statutes, is amended to read:  
9 43-1072. Earned credit for property taxes; residents sixty-five  
10 years of age or older; definitions

11 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, there shall be  
12 allowed to each resident a credit against the taxes imposed by this title for  
13 a taxable year for property taxes accrued or rent, or both, paid in that  
14 taxable year, in accordance with subsection B of this section, if all of the  
15 following apply:

16 1. Such resident attained the age of sixty-five years prior to or  
17 during the taxable year or such resident is a recipient of public monies  
18 under title 16 of the social security act, as amended.

19 2. Such person paid either property taxes or rent during the taxable  
20 year.

21 3. Such person either:

22 (a) Did not live with a spouse or any other persons and had an income  
23 from all sources in the taxable year of less than three thousand seven  
24 hundred fifty-one dollars.

25 (b) Lived with a spouse or one or more persons and the combined income  
26 from all sources in the taxable year of all persons residing in the residence  
27 was less than five thousand five hundred one dollars.

28 B. The credit allowed under this section is the amount of property  
29 taxes actually paid during the taxable year or the amount computed as  
30 follows, whichever is less:

31 1. For a person eligible under subsection A, paragraph 3, subdivision  
32 (a) of this section, according to the following table:

<u>Household Income</u>	<u>Tax Credit</u>
34 \$ 0-1,750	\$502
35 1,751-1,850	479
36 1,851-1,950	457
37 1,951-2,050	435
38 2,051-2,150	412
39 2,151-2,250	390
40 2,251-2,350	368
41 2,351-2,450	345
42 2,451-2,550	323
43 2,551-2,650	301
44 2,651-2,750	279
45 2,751-2,850	256

1	2,851-2,950	234
2	2,951-3,050	212
3	3,051-3,150	189
4	3,151-3,250	167
5	3,251-3,350	145
6	3,351-3,450	123
7	3,451-3,550	100
8	3,551-3,650	78
9	3,651-3,750	56

10 2. For a person eligible under subsection A, paragraph 3, subdivision  
 11 (b) of this section, according to the following table:

12	<u>Household Income</u>	<u>Tax Credit</u>
13	\$ 0-2,500	\$502
14	2,501-2,650	479
15	2,651-2,800	457
16	2,801-2,950	435
17	2,951-3,100	412
18	3,101-3,250	390
19	3,251-3,400	368
20	3,401-3,550	345
21	3,551-3,700	323
22	3,701-3,850	301
23	3,851-4,000	279
24	4,001-4,150	256
25	4,151-4,300	234
26	4,301-4,450	212
27	4,451-4,600	189
28	4,601-4,750	167
29	4,751-4,900	145
30	4,901-5,050	123
31	5,051-5,200	100
32	5,201-5,350	78
33	5,351-5,500	56

34 C. The owner or lessor of property leased or rented solely for  
 35 residential purposes, on request, shall furnish to the tenants of the  
 36 property a written statement of the percentage of rental payments that are  
 37 attributable to property tax for purposes of this section.

38 D. Disposition of the claimant's allowable credit shall be as provided  
 39 below:

40 1. If the allowable amount of such claim exceeds the income taxes  
 41 otherwise due on the claimant's income, the amount of the claim not used as  
 42 an offset against income taxes, after audit by the department, shall be paid  
 43 in the same manner as a refund granted under chapter 6, article 1 of this  
 44 title. Refunds made pursuant to this paragraph are subject to setoff under  
 45 section 42-1122.

1           2. The amount of any claim otherwise payable for credit for property  
2 taxes accrued or rent may be applied by the department against any liability  
3 outstanding on the books of the department against the claimant or against  
4 the claimant's spouse who was a member of the claimant's household in the  
5 taxable year.

6           E. The department shall make available suitable forms with  
7 instructions for claimants. Claimants who certify on the prescribed form  
8 that they have no income tax liability for the taxable year shall not be  
9 required to file an individual income tax return. The claim shall be in such  
10 form as the department may prescribe but shall require the social security  
11 numbers of persons who were allowed to claim as dependents for the taxes  
12 imposed by this title claimants filing pursuant to this section. The  
13 claimant shall also submit a copy of the claimant's property tax statement or  
14 a suitable representation of the statement as prescribed by the department.  
15 The department shall audit a sufficient number of claims to enforce the  
16 provisions of this chapter.

17           F. No claim with respect to property taxes or with respect to rent  
18 shall be allowed or paid unless the claim is actually filed on or before  
19 April 15 for the next preceding calendar year. The department ~~may~~, upon  
20 request, **MAY** grant for a period of not to exceed six months an extension of  
21 time for filing the claim.

22           G. Only one claimant per household per year shall be entitled to a tax  
23 credit pursuant to this section.

24           H. ~~It~~ **FOR THE PURPOSES OF** this section, unless the context otherwise  
25 requires:

26           1. "Claimant" means a person who has filed a claim for credit under  
27 this section and was a resident of this state during the entire taxable year.  
28 In the case of a claim for rent, the claimant shall have rented property in  
29 this state during the entire taxable year except as otherwise provided by  
30 this section. If two individuals of a household are able to meet the  
31 qualifications for a claimant, they may determine between them as to whom the  
32 claimant shall be. If they are unable to agree, the matter shall be referred  
33 to the department and its decision shall be final. If a homestead is  
34 occupied by two or more individuals and more than one individual is able to  
35 qualify as a claimant, and some or all of the qualified individuals are not  
36 related, the individuals may determine among them as to whom the claimant  
37 shall be. If they are unable to agree, the matter shall be referred to the  
38 department, and its decision shall be final.

39           2. "Gross rent" means rental paid for the right of occupancy of a  
40 homestead or space rental paid to a landlord for the parking of a mobile  
41 home. If the department is satisfied that the gross rent charge was paid  
42 solely for purposes of receiving a credit pursuant to this section, it shall  
43 not allow a claim.

1           3. "Homestead" means the principal dwelling, whether owned or rented  
2 by the claimant. "Homestead" may also include a mobile home and the land  
3 upon which it is located.

4           4. "Household" means the household of the claimant and such other  
5 persons as resided with the claimant in the claimant's homestead during the  
6 taxable year.

7           5. "Household income" means all income received by all persons of a  
8 household in a taxable year while members of the household.

9           6. "Income" means the sum of the following:

10           (a) Adjusted gross income as defined by the department.

11           (b) The amount of capital gains excluded from adjusted gross income.

12           (c) Nontaxable strike benefits.

13           (d) Nontaxable interest received from the federal government or any of  
14 its instrumentalities.

15           (e) Payments received from a retirement program paid by this state or  
16 any of its political subdivisions.

17           (f) Payments received from a retirement program paid by the United  
18 States through any of its agencies, instrumentalities or programs, except as  
19 provided in subsection I of this section.

20           (g) The gross amount of any pension or annuity not otherwise exempted  
21 except as provided in subsection I of this section.

22           7. "Property taxes" means property taxes levied on a claimant's  
23 homestead in this state in any taxable year. For purposes of this paragraph,  
24 property taxes are "levied" when the tax roll is delivered to the county  
25 treasurer for collection. If a claimant and the claimant's household own  
26 their homestead part of the taxable year and rent it or different homesteads  
27 for the rest of the same year, provided property taxes were levied on the  
28 homestead which was owned by the claimant and the claimant's household, such  
29 claimant shall be eligible for a credit pursuant to this section.

30           I. Income as defined in subsection H, paragraph 6, subdivisions (f)  
31 and (g) of this section shall not include monies received from cash public  
32 assistance and relief, relief granted under the provisions of this section,  
33 railroad retirement benefits, payments received under the federal social  
34 security act (49 Stat. 620), payments received under Arizona state  
35 unemployment insurance laws, payments received from veterans' disability  
36 pensions, payments received as workers' compensation, the gross amount of  
37 "loss of time" insurance, and gifts from nongovernmental sources or surplus  
38 foods or other relief in kind supplied by a governmental agency.

39           Sec. 7. Section 43-1072.01, Arizona Revised Statutes, is amended to  
40 read:

41           43-1072.01. Credit for increased excise taxes paid

42           A. Subject to the conditions prescribed by this section and if  
43 approved by the qualified electors voting at a statewide general election,  
44 for tax years beginning from and after December 31, 2000 **AND ENDING BEFORE**  
45 **JANUARY 1, 2018** a credit is allowed against the taxes imposed by this chapter

1 for a taxable year for a taxpayer who is not claimed as a dependent by any  
2 other taxpayer and whose federal adjusted gross income is:

3 1. Twenty-five thousand dollars or less for a married couple or a  
4 single person who is a head of a household.

5 2. Twelve thousand five hundred dollars or less for a single person or  
6 a married person filing separately.

7 B. The credit is considered to be in mitigation of increased tax rates  
8 pursuant to section 42-5010, subsection G and section 42-5155, subsection D.

9 C. The amount of the credit shall not exceed twenty-five dollars for  
10 each person who is a resident of this state and for whom a personal or  
11 dependent exemption is allowed with respect to the taxpayer pursuant to  
12 section 43-1023, subsection B, paragraph 1 and section 43-1043, but not more  
13 than one hundred dollars for all persons in the taxpayer's household, as  
14 defined in section 43-1072.

15 D. If the allowable amount of the credit exceeds the income taxes  
16 otherwise due on the claimant's income, the amount of the claim not used as  
17 an offset against income taxes shall be paid in the same manner as a refund  
18 granted under section 42-1118. Refunds made pursuant to this subsection are  
19 subject to setoff under section 42-1122.

20 E. The department shall make available suitable forms with  
21 instructions for claimants. Claimants who certify on the prescribed form  
22 that they have no income tax liability for the taxable year and who do not  
23 meet the filing requirements of section 43-301 are not required to file an  
24 individual income tax return. The claim shall be in a form prescribed by the  
25 department.

26 F. For taxable years beginning from and after December 31, 2002, a  
27 person who is sentenced for at least sixty days of the taxable year to the  
28 custody of the federal bureau of prisons, the state department of corrections  
29 or a county jail is not eligible to claim a credit pursuant to this section.

30 Sec. 8. Section 43-1073, Arizona Revised Statutes, is amended to read:  
31 43-1073. Family income tax credit

32 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018 AND subject to the  
33 conditions prescribed by this section, a credit is allowed against the taxes  
34 imposed by this chapter for a taxable year for taxpayers whose Arizona  
35 adjusted gross income, plus the amount subtracted for exemptions under  
36 section 43-1023, is:

37 1. Twenty thousand dollars or less in the case of a married couple  
38 filing a joint return with no more than one dependent or a single person who  
39 is a head of a household with no more than one dependent.

40 2. Twenty-three thousand six hundred dollars or less in the case of a  
41 married couple filing a joint return with two dependents.

42 3. Twenty-seven thousand three hundred dollars or less in the case of  
43 a married couple filing a joint return with three dependents.

44 4. Thirty-one thousand dollars or less in the case of a married couple  
45 filing a joint return with four or more dependents.

1           5. Twenty thousand one hundred thirty-five dollars or less in the case  
2 of a single person who is a head of a household with two dependents.

3           6. Twenty-three thousand eight hundred dollars or less in the case of  
4 a single person who is a head of a household with three dependents.

5           7. Twenty-five thousand two hundred dollars or less in the case of a  
6 single person who is a head of a household with four dependents.

7           8. Twenty-six thousand five hundred seventy-five dollars or less in  
8 the case of a single person who is a head of a household with five or more  
9 dependents.

10          9. Ten thousand dollars or less in the case of a single person or a  
11 married person filing separately.

12          B. The amount of the credit is equal to forty dollars for each person  
13 who is a resident of this state and for whom a personal or dependent  
14 exemption is allowed with respect to the taxpayer pursuant to section 43-1043  
15 and SECTION 43-1023, subsection B, paragraph 1, but not to exceed:

16           1. Two hundred forty dollars in the case of a married couple filing a  
17 joint return or a single person who is a head of a household.

18           2. One hundred twenty dollars in the case of a single person or a  
19 married couple filing separately.

20           3. For any taxpayer, the amount of taxes due under this chapter for  
21 the taxable year.

22          Sec. 9. Section 43-1074.01, Arizona Revised Statutes, as amended by  
23 Laws 2008, chapter 290, section 2, is amended to read:

24           43-1074.01. Credit for increased research activities

25          A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2019**, a credit is  
26 allowed against the taxes imposed by this title in an amount determined  
27 pursuant to section 41 of the internal revenue code, except that:

28           1. The amount of the credit is based on the excess, if any, of the  
29 qualified research expenses for the taxable year over the base amount as  
30 defined in section 41(c) of the internal revenue code and is computed as  
31 follows:

32           (a) If the excess is two million five hundred thousand dollars or  
33 less, the credit is equal to twenty-four per cent of that amount.

34           (b) If the excess is over two million five hundred thousand dollars,  
35 the credit is equal to six hundred thousand dollars plus fifteen per cent of  
36 any amount exceeding two million five hundred thousand dollars, except that:

37           (i) For taxable years beginning from and after December 31, 2000  
38 through December 31, 2001, the credit shall not exceed one million five  
39 hundred thousand dollars.

40           (ii) For taxable years beginning from and after December 31, 2001  
41 through December 31, 2002, the credit shall not exceed two million five  
42 hundred thousand dollars.

43           2. Qualified research includes only research conducted in this state,  
44 including research conducted at a university in this state and paid for by  
45 the taxpayer.

1           3. If two or more taxpayers, including partners in a partnership and  
2 shareholders of an S corporation, as defined in section 1361 of the internal  
3 revenue code, share in the eligible expenses, each taxpayer is eligible to  
4 receive a proportionate share of the credit.

5           4. The credit under this section applies only to expenses incurred  
6 from and after December 31, 2000.

7           5. The termination provisions of section 41 of the internal revenue  
8 code do not apply.

9           B. If the allowable credit under this section 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 amount of the credit not used to offset taxes  
12 may be carried forward to the next fifteen consecutive taxable years. The  
13 amount of credit carryforward from taxable years beginning from and after  
14 December 31, 2000 through December 31, 2002 that may be used in any taxable  
15 year may not exceed the taxpayer's tax liability under this title or five  
16 hundred thousand dollars, whichever is less, minus the credit under this  
17 section for the current taxable year's qualified research expenses. The  
18 amount of credit carryforward from taxable years beginning from and after  
19 December 31, 2002 that may be used in any taxable year may not exceed the  
20 taxpayer's tax liability under this title minus the credit under this section  
21 for the current taxable year's qualified research expenses.

22           Sec. 10. Section 43-1074.01, Arizona Revised Statutes, as added by  
23 Laws 2008, chapter 290, section 4, is amended to read:

24           43-1074.01. Credit for increased research activities

25           A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2027**, a credit is  
26 allowed against the taxes imposed by this title in an amount determined  
27 pursuant to section 41 of the internal revenue code, except that:

28           1. The amount of the credit is based on the excess, if any, of the  
29 qualified research expenses for the taxable year over the base amount as  
30 defined in section 41(c) of the internal revenue code and is computed as  
31 follows:

32           (a) If the excess is two million five hundred thousand dollars or  
33 less, the credit is equal to twenty per cent of that amount.

34           (b) If the excess is over two million five hundred thousand dollars,  
35 the credit is equal to five hundred thousand dollars plus eleven per cent of  
36 any amount exceeding two million five hundred thousand dollars, except that:

37           (i) For taxable years beginning from and after December 31, 2000  
38 through December 31, 2001, the credit shall not exceed one million five  
39 hundred thousand dollars.

40           (ii) For taxable years beginning from and after December 31, 2001  
41 through December 31, 2002, the credit shall not exceed two million five  
42 hundred thousand dollars.

43           2. Qualified research includes only research conducted in this state,  
44 including research conducted at a university in this state and paid for by  
45 the taxpayer.



1 the applicant receives approval for the credit pursuant to section  
 2 41-1517.01, subsection F. The audit must be conducted by the applicant's  
 3 authorized representative, as defined in section 42-2301, who is an  
 4 independent certified public accountant licensed in this state. The  
 5 certified public accountant and the firm the certified public accountant is  
 6 affiliated with shall not regularly perform services for the taxpayer or its  
 7 affiliates. If the director accepts the findings of the audit and issues a  
 8 notice of determination pursuant to section 42-2303 and the taxpayer timely  
 9 files its income tax return with the appropriate credit claim forms, the  
 10 credit amount accepted is not subject to recapture, disallowance, reduction  
 11 or denial with respect to either the taxpayer or any subsequent transferee of  
 12 the credit, and subsection F, paragraph 4 of this section does not apply.  
 13 The director's notice of determination shall include a written certificate to  
 14 the taxpayer stating the amount of the credit and that the credit is not  
 15 subject to recapture from a transferee. This subsection does not prevent the  
 16 recapture of a credit if the taxpayer failed to disclose material information  
 17 during the audit or falsified its books or records or otherwise engaged in an  
 18 action that prevented an accurate audit.

19 D. Co-owners of a business, including partners in a partnership,  
 20 members of a limited liability company and shareholders of an S corporation  
 21 as defined in section 1361 of the internal revenue code, may allocate the  
 22 credit allowed under this section among the co-owners on any basis without  
 23 regard to their proportional ownership interest. The total of the credits  
 24 allowed all such owners may not exceed the amount that would have been  
 25 allowed for a sole owner of the company.

26 E. If the allowable tax credit for a taxpayer exceeds the taxes  
 27 otherwise due under this title on the claimant's income, or if there are no  
 28 taxes due under this title, the taxpayer may carry the amount of the claim  
 29 not used to offset the taxes under this title forward for not more than five  
 30 consecutive taxable years' income tax liability.

31 F. All or part of any unclaimed amount of credit under this section  
 32 may be sold or otherwise transferred under the following conditions:

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

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

- 41 (a) The name of the taxpayer.
- 42 (b) The date of the transfer.
- 43 (c) The amount of the transfer.
- 44 (d) The transferor's tax credit balance before the transfer and the  
 45 remaining balance after the transfer.

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

2 (f) Any other information required by rule.

3 3. A sale or transfer of the credit does not extend the time in which  
4 the credit can be used. The carryforward period of time under subsection E  
5 of this section for a credit that is sold or transferred begins on the date  
6 the credit was originally earned.

7 4. Except as provided by subsection C of this section, if a transferor  
8 was not qualified or was disqualified from using the credit at the time of  
9 the transfer, the department shall either disallow the credit claimed by a  
10 transferee or recapture the credit from the transferee through any authorized  
11 collection method. The transferee's recourse is against the transferor.

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

15 G. The department of revenue shall maintain annual data on the total  
16 amount of monies credited pursuant to this section, and shall provide that  
17 data to the department of commerce on request.

18 H. The department of revenue, with the cooperation of the department  
19 of commerce, shall adopt rules and publish and prescribe forms and procedures  
20 as necessary to effectuate the purposes of this section.

21 I. A taxpayer who claims a credit for motion picture infrastructure  
22 projects under this section shall not claim a credit under section 43-1075  
23 for the same costs.

24 J. The credit allowed by this section is in lieu of any allowance for  
25 state tax purposes of a deduction of those expenses allowed by the internal  
26 revenue code.

27 K. For the purposes of this section, "motion picture infrastructure  
28 project" has the same meaning prescribed in section 41-1517.01.

29 Sec. 12. Section 43-1077, Arizona Revised Statutes, is amended to  
30 read:

31 43-1077. Credit for employment by qualified defense contractor

32 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
33 allowed against the taxes imposed by this title for:

34 1. Net increases in employment under United States department of  
35 defense contracts during the taxable year, as computed under subsection D of  
36 this section, by a qualified defense contractor who is certified by the  
37 department of commerce under section 41-1508.

38 2. Net increases in private commercial employment during the taxable  
39 year, as computed under subsection E of this section, by a qualified defense  
40 contractor who is certified by the department of commerce under section  
41 41-1508 due to full-time equivalent employee positions transferred during the  
42 taxable year by the taxpayer from exclusively defense related activities to  
43 employment by the taxpayer in exclusively private commercial activities.

44 B. The amount of the credit is a dollar amount allowed for each  
45 full-time equivalent employee position created, determined as follows:

1	1st year	\$2,500
2	2nd year	\$2,000
3	3rd year	\$1,500
4	4th year	\$1,000
5	5th year	\$ 500

6 C. If the allowable tax credit exceeds the taxes otherwise due under  
7 this title on the claimant's income, or if there are no taxes due under this  
8 title, the taxpayer may carry the amount of the claim not used to offset the  
9 taxes under this title forward until taxable years beginning from and after  
10 December 31, 2011 as a credit against subsequent years' income tax liability,  
11 regardless of continuing certification as a qualified defense contractor.

12 D. The net increase in employment under defense related contracts  
13 shall be determined as follows:

14 1. Establish an employment baseline for the taxpayer based on a  
15 multiyear forecast of employment on United States department of defense  
16 contracts that was submitted to the department of defense before June 1,  
17 1992. The annual average employment forecast for the first year the taxpayer  
18 qualified is the baseline. If the taxpayer did not make such a forecast  
19 before June 1, 1992, the baseline is the average annual employment as  
20 reported to the department of economic security during the preceding taxable  
21 year. If a taxpayer qualifies in the same year it relocates into this state,  
22 the taxpayer's baseline is zero.

23 2. For the first year of the credit, the taxpayer's net increase in  
24 average employment is the increase in employment reported to the department  
25 of economic security for the taxable year over the employment baseline.

26 3. For each succeeding year of the credit, the taxpayer's net increase  
27 in average employment is the increase in employment reported to the  
28 department of economic security for the taxable year over the preceding  
29 taxable year's average employment.

30 E. In computing the amount of credit allowed under subsection A,  
31 paragraph 2 of this section, the taxpayer shall:

32 1. Prorate employment during the taxable year according to the date of  
33 transfer from defense to private commercial activities or the date of  
34 transfer from private commercial activities to defense.

35 2. Compute and subtract an amount pursuant to subsection B of this  
36 section for full-time equivalent employee positions that were transferred  
37 during the taxable year by the taxpayer from exclusively private commercial  
38 activities to exclusively defense related activities.

39 F. The taxpayer shall account for qualifying full-time equivalent  
40 employee positions on a first-in first-out basis. If a decrease in  
41 qualifying employment occurs, the taxpayer shall subtract the decrease from  
42 the earliest qualifying positions.

43 G. A credit is not allowed under both subsection A, paragraphs 1 and 2  
44 of this section with respect to the same employee position. A full-time  
45 equivalent employee position may be considered for purposes of computing the

1 credit under either subsection A, paragraph 1 or 2 of this section, but not  
2 both.

3 H. A credit is not allowed under this section with respect to  
4 employment that was transferred from an outside contractor in this state to  
5 in-house employment by the taxpayer solely for purposes of qualifying for the  
6 credit.

7 I. A taxpayer who claims a credit under section 43-1074, 43-1079 or  
8 43-1083.01 may not claim a credit under this section with respect to the same  
9 employee positions.

10 J. Co-owners of a business, including partners in a partnership and  
11 shareholders of an S corporation, as defined in section 1361 of the internal  
12 revenue code, may each claim only the pro rata share of the credit allowed  
13 under this section based on the ownership interest. The total of the credits  
14 allowed all such owners may not exceed the amount that would have been  
15 allowed for a sole owner of the business.

16 Sec. 13. Section 43-1078, Arizona Revised Statutes, is amended to  
17 read:

18 43-1078. Credit for property taxes paid by qualified defense  
19 contractor

20 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
21 allowed against the taxes imposed by this title equal to a portion of the  
22 amount paid as taxes during the taxable year by a qualified defense  
23 contractor that is certified by the department of commerce under section  
24 41-1508, on property in this state that is classified as class one,  
25 paragraphs 12 and 13 pursuant to section 42-12001.

26 B. The amount of the credit is determined as follows:

27 1. Multiply the amount paid as taxes on property classified as class  
28 one, paragraphs 12 and 13 pursuant to section 42-12001 in this state during  
29 the taxable year by a percentage based on net new defense related employment,  
30 determined by subtracting the employment baseline determined pursuant to  
31 section 43-1077, subsection D, paragraph 1, ~~from~~ from average annual employment  
32 as reported to the department of economic security for the taxable year, as  
33 follows:

<u>New employment</u>	<u>Credit percentage</u>
34 More than 900	40%
35 601 - 900	30%
36 301 - 600	20%
37 1 - 300	10%

38  
39 2. Multiply the amount determined under paragraph 1 of this subsection  
40 by a percentage determined by dividing the taxpayer's total gross income from  
41 United States department of defense contracts apportioned to this state by  
42 the taxpayer's total gross income from all sources apportioned to this state.

43 C. If the allowable tax credit exceeds the taxes otherwise due under  
44 this title on the claimant's income, or if there are no taxes due under this  
45 title, the taxpayer may carry the amount of the claim not used to offset the

1 taxes under this title forward until taxable years beginning from and after  
2 December 31, 2011 as a credit against subsequent years' income tax liability,  
3 regardless of continuing certification as a qualified defense contractor.

4 D. The credit allowed by this section is in lieu of a deduction for  
5 property taxes under section 43-1042 with respect to the same taxes paid.

6 E. Co-owners of a business, including partners in a partnership and  
7 shareholders of an S corporation, as defined in section 1361 of the internal  
8 revenue code, may each claim only the pro rata share of the credit allowed  
9 under this section based on the ownership interest. The total of the credits  
10 allowed all such owners may not exceed the amount that would have been  
11 allowed for a sole owner of the business.

12 Sec. 14. Section 43-1079, Arizona Revised Statutes, is amended to  
13 read:

14 43-1079. Credit for increased employment in military reuse  
15 zones; definition

16 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
17 allowed against the taxes imposed by this title for net increases in  
18 employment by the taxpayer of full-time employees working in a military reuse  
19 zone, established under title 41, chapter 10, article 3, and who are  
20 primarily engaged in providing aviation or aerospace services or in  
21 manufacturing, assembling or fabricating aviation or aerospace products. The  
22 amount of the credit is a dollar amount allowed for each new employee,  
23 determined as follows:

24 1. With respect to each employee other than a dislocated military base  
25 employee:

26	1st year of employment	\$ 500
27	2nd year of employment	\$1,000
28	3rd year of employment	\$1,500
29	4th year of employment	\$2,000
30	5th year of employment	\$2,500

31 2. With respect to each dislocated military base employee:

32	1st year of employment	\$1,000
33	2nd year of employment	\$1,500
34	3rd year of employment	\$2,000
35	4th year of employment	\$2,500
36	5th year of employment	\$3,000

37 B. If the allowable tax credit exceeds the taxes otherwise due under  
38 this title on the claimant's income, or if there are no taxes due under this  
39 title, the amount of the claim not used to offset the taxes under this title  
40 may be carried forward as a credit against subsequent years' income tax  
41 liability for the period, not to exceed five taxable years, if the business  
42 remains in the military reuse zone.

43 C. The net increase in the number of employees for purposes of this  
44 section shall be determined by comparing the taxpayer's average employment in  
45 the military reuse zone during the taxable year with the taxpayer's previous

1 year's fourth quarter employment in the zone, based on the taxpayer's report  
2 to the department of economic security for unemployment insurance purposes  
3 but considering only employment in the zone.

4 D. Co-owners of a business, including partners in a partnership and  
5 shareholders of an S corporation, as defined in section 1361 of the internal  
6 revenue code, may each claim only the pro rata share of the credit allowed  
7 under this section based on the ownership interest. The total of the credits  
8 allowed all such owners may not exceed the amount that would have been  
9 allowed for a sole owner of the business.

10 E. A credit is not allowed under this section with respect to an  
11 employee whose place of employment is relocated by the taxpayer from a  
12 location in this state to the military reuse zone, unless the employee is  
13 engaged in aviation or aerospace services or in manufacturing, assembling or  
14 fabricating aviation or aerospace products and the taxpayer maintains at  
15 least the same number of employees in this state but outside the zone.

16 F. A taxpayer who claims a credit under section 43-1074, 43-1077 or  
17 43-1083.01 may not claim a credit under this section with respect to the same  
18 employees.

19 G. For the purposes of this section, "dislocated military base  
20 employee" means a civilian who previously had permanent full-time civilian  
21 employment on the military facility as of the date the closure of the  
22 facility was finally determined under federal law, as certified by the  
23 department of commerce.

24 Sec. 15. Section 43-1079.01, Arizona Revised Statutes, is amended to  
25 read:

26 43-1079.01. Credit for employing national guard members

27 A. For taxable years beginning from and after December 31, 2005 AND  
28 ENDING BEFORE JANUARY 1, 2018, a credit is allowed against the taxes imposed  
29 by this title for a taxpayer whose employee is a member of the Arizona  
30 national guard if the employee is placed on active duty. The amount of the  
31 credit is one thousand dollars for each employee who is placed on active duty  
32 by the Arizona national guard.

33 B. To qualify for the credit:

34 1. The employee must be a member of the Arizona national guard who is  
35 employed by the taxpayer in a full-time equivalent position when the employee  
36 is placed on active duty.

37 2. Each member of the Arizona national guard who is employed must have  
38 served during the taxable year on active duty for training that exceeds the  
39 required annual training period, including any activation for federal or  
40 state contingencies or emergencies.

41 C. If the allowable credit exceeds the taxes otherwise due under this  
42 title on the claimant's income, or if there are no taxes due under this  
43 title, the amount of the claim not used to offset taxes under this title may  
44 be carried forward for not more than five consecutive taxable years as a  
45 credit against subsequent years' income tax liability.

1 D. The credit under this section may be claimed only once by the  
2 taxpayer in any taxable year with respect to each employee who is placed on  
3 active duty by the Arizona national guard, but may be claimed again for that  
4 employee in a subsequent taxable year if that employee remains on active duty  
5 or is placed again on active duty in a subsequent taxable year.

6 E. Co-owners of a business, including partners in a partnership and  
7 shareholders of an S corporation as defined in section 1361 of the internal  
8 revenue code, may each claim only the pro rata share of the credit allowed  
9 under this section based on the ownership interest. The total of the credits  
10 allowed all such owners may not exceed the amount that would have been  
11 allowed a sole owner.

12 Sec. 16. Section 43-1080, Arizona Revised Statutes, is amended to  
13 read:

14 43-1080. Credit for construction costs of qualified  
15 environmental technology facility

16 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
17 allowed against the taxes imposed by this title for expenses incurred in  
18 constructing a qualified environmental technology manufacturing, producing or  
19 processing facility as described in section 41-1514.02. The amount of the  
20 credit is equal to ten per cent of the amount spent during the taxable year  
21 to construct the facility, including land acquisition, improvements, building  
22 improvements, machinery and equipment, but not exceeding seventy-five per  
23 cent of the tax liability under this title for the taxable year determined  
24 without applying the credit.

25 B. Amounts qualifying for the credit under this section must be  
26 includible in the taxpayer's adjusted basis for the facility. The adjusted  
27 basis of any asset with respect to which the taxpayer has claimed a credit  
28 shall be reduced by the amount of credit claimed with respect to that asset.  
29 This credit does not affect the deductibility for depreciation or  
30 amortization of the remaining adjusted basis of the asset.

31 C. A taxpayer may claim a credit under this section with respect to  
32 new qualifying construction within ten years after the start of the  
33 facility's initial construction, but a credit is not allowed under this  
34 section for any amount spent more than ten years after the start of the  
35 facility's initial construction.

36 D. A taxpayer qualifies for the credit under this section if the  
37 taxpayer owns the facility or leases the facility or any component of the  
38 facility for a term of five or more years.

39 E. If the allowable tax credit exceeds seventy-five per cent of the  
40 taxes otherwise due under this title on the claimant's income, or if there  
41 are no taxes due under this title, the amount of the claim not used to offset  
42 taxes under this title may be carried forward for not more than fifteen  
43 taxable years as a credit against subsequent years' income tax liability.

44 F. Co-owners of a business, including partners in a partnership and  
45 shareholders of an S corporation, as defined in section 1361 of the internal

1 revenue code, may each claim only the pro rata share of the credit allowed  
2 under this section based on the ownership interest. The total of the credits  
3 allowed all such owners may not exceed the amount that would have been  
4 allowed for a sole owner of the business.

5 G. If either of the following circumstances occurs with respect to a  
6 qualified environmental technology manufacturing, producing or processing  
7 facility, the tax imposed by this title for the taxable year in which the  
8 circumstance occurs shall be increased by the full amount of all credits  
9 previously allowed under this section with respect to that facility:

10 1. The taxpayer abandons construction before the facility is placed in  
11 service.

12 2. Before the facility is placed in service, the taxpayer changes  
13 plans in such a manner as to no longer qualify as an environmental technology  
14 manufacturing, producing or processing facility under section 41-1514.02.

15 H. If, within five years after being placed in service, an operating  
16 environmental technology manufacturing, producing or processing facility with  
17 respect to which a credit has been allowed under this section ceases for any  
18 reason to operate as an environmental technology manufacturing, producing or  
19 processing facility as described in section 41-1514.02, the tax imposed by  
20 this title for the taxable year shall be increased by an amount determined by  
21 multiplying the full amount of all credits previously allowed under this  
22 section with respect to that facility by a percentage determined as follows:

23 1. If the facility was placed in service less than one year before  
24 ceasing to operate as an environmental technology manufacturing, producing or  
25 processing facility, one hundred per cent.

26 2. If the facility was placed in service at least one year but not  
27 more than two years before ceasing to operate as an environmental technology  
28 manufacturing, producing or processing facility, eighty per cent.

29 3. If the facility was placed in service at least two years but less  
30 than three years before ceasing to operate as an environmental technology  
31 manufacturing, producing or processing facility, sixty per cent.

32 4. If the facility was placed in service at least three years but less  
33 than four years before ceasing to operate as an environmental technology  
34 manufacturing, producing or processing facility, forty per cent.

35 5. If the facility was placed in service at least four years but less  
36 than five years before ceasing to operate as an environmental technology  
37 manufacturing, producing or processing facility, twenty per cent.

38 I. The department by rule shall prescribe record keeping requirements  
39 for taxpayers who claim a credit under this section.

40 Sec. 17. Section 43-1081, Arizona Revised Statutes, is amended to  
41 read:

42 43-1081. Credit for pollution control equipment

43 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
44 allowed against the taxes imposed by this title for expenses that the  
45 taxpayer incurred during the taxable year to purchase real or personal

1 property that is used in the taxpayer's trade or business in this state to  
2 control or prevent pollution. The amount of the credit is equal to ten per  
3 cent of the purchase price.

4 B. Property that qualifies for the credit under this section includes  
5 that portion of a structure, building, installation, excavation, machine,  
6 equipment or device and any attachment or addition to or reconstruction,  
7 replacement or improvement of that property that is directly used,  
8 constructed, or installed in this state for the purpose of meeting or  
9 exceeding rules or regulations adopted by the United States environmental  
10 protection agency, the department of environmental quality or a political  
11 subdivision of this state to prevent, monitor, control or reduce air, water  
12 or land pollution that results from the taxpayer's direct operating  
13 activities in conducting a trade or business in this state.

14 C. The credit allowed pursuant to this section does not apply to:

15 1. The purchase of any personal property that is attached to a motor  
16 vehicle.

17 2. Any property that has a substantial use for a purpose other than  
18 the purposes described in subsection B.

19 3. Any portion of pollution control property that is included as a  
20 standard and integral part of another property.

21 D. Amounts that qualify for a credit under this section must be  
22 includible in the taxpayer's adjusted basis for the property. The adjusted  
23 basis of any property with respect to which the taxpayer has claimed a credit  
24 shall be reduced by the amount of credit claimed with respect to that asset.  
25 This credit does not affect the deductibility for depreciation or  
26 amortization of the remaining adjusted basis of the asset.

27 E. Co-owners of a business, including partners in a partnership and  
28 shareholders of an S corporation, as defined in section 1361 of the internal  
29 revenue code, may each claim only the pro rata share of the credit allowed  
30 under this section based on the ownership interest. The total of the credits  
31 allowed all such owners may not exceed the amount that would have been  
32 allowed a sole owner.

33 F. If the allowable tax credit exceeds the taxes otherwise due under  
34 this title on the claimant's income, or if there are no taxes due under this  
35 title, the taxpayer may carry the amount of the claim not used to offset the  
36 taxes under this title forward for not more than five taxable years' income  
37 tax liability.

38 G. The maximum credit that a taxpayer may claim under this section is  
39 five hundred thousand dollars in a taxable year.

40 Sec. 18. Section 43-1081.01, Arizona Revised Statutes, is amended to  
41 read:

42 43-1081.01. Credit for agricultural pollution control equipment

43 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
44 allowed against the taxes imposed by this title for expenses that a taxpayer,  
45 involved in the commercial production of livestock, livestock products or

1 agricultural, horticultural, viticultural or floricultural crops or products,  
2 incurred during the taxable year to purchase tangible personal property that  
3 is primarily used in the taxpayer's trade or business in this state to  
4 control or prevent pollution. The amount of the credit is equal to  
5 twenty-five per cent of the cost of the real or personal property. The  
6 maximum credit that a taxpayer may claim under this section is twenty-five  
7 thousand dollars in a taxable year.

8 B. Property that qualifies for the credit under this section includes  
9 the portion of a structure, building, installation, excavation, machine,  
10 equipment or device and any attachment or addition to or reconstruction,  
11 replacement or improvement of that property that is directly used,  
12 constructed or installed in this state to prevent, monitor, control or reduce  
13 air, water or land pollution.

14 C. Amounts that qualify for a credit under this section must be  
15 includible in the taxpayer's adjusted basis for the property. The adjusted  
16 basis of any property with respect to which the taxpayer has claimed a credit  
17 shall be reduced by the amount of credit claimed with respect to that asset.  
18 This credit does not affect the deductibility for depreciation or  
19 amortization of the remaining adjusted basis of the asset.

20 D. Co-owners of a business, including partners in a partnership and  
21 shareholders of an S corporation, as defined in section 1361 of the internal  
22 revenue code, may each claim only the pro rata share of the credit allowed  
23 under this section based on the ownership interest. The total of the credits  
24 allowed all such owners may not exceed the amount that would have been  
25 allowed a sole owner.

26 E. If the allowable tax credit exceeds the taxes otherwise due under  
27 this title on the claimant's income, or if there are no taxes due under this  
28 title, the amount of the claim not used to offset the taxes under this title  
29 may be carried forward to the next five consecutive taxable years as a credit  
30 against subsequent years' income tax liability.

31 F. A taxpayer who claims a credit for pollution control equipment  
32 under this section shall not claim a credit under section 43-1081 for the  
33 same equipment or expense.

34 Sec. 19. Section 43-1083, Arizona Revised Statutes, is amended to  
35 read:

36 43-1083. Credit for solar energy devices

37 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
38 allowed against the taxes imposed by this title for each resident who is not  
39 a dependent of another taxpayer for installing a solar energy device, as  
40 defined in section 42-5001, during the taxable year in the taxpayer's  
41 residence located in this state. The credit is equal to twenty-five per cent  
42 of the cost of the device.

43 B. The maximum credit in a taxable year may not exceed one thousand  
44 dollars. The person who provides the solar energy device shall furnish the  
45 taxpayer with an accounting of the cost to the taxpayer. A taxpayer may

1 claim the credit under this section only once in a tax year and may not  
2 cumulate over different tax years tax credits under this section exceeding,  
3 in the aggregate, one thousand dollars for the same residence.

4 C. If the allowable tax credit exceeds the taxes otherwise due under  
5 this title on the claimant's income, or if there are no taxes due under this  
6 title, the amount of the claim not used to offset taxes under this title may  
7 be carried forward for not more than five consecutive taxable years as a  
8 credit against subsequent years' income tax liability.

9 D. A husband and wife who file separate returns for a taxable year in  
10 which they could have filed a joint return may each claim only one-half of  
11 the tax credit that would have been allowed for a joint return.

12 E. The credit allowed under this section is in lieu of any allowance  
13 for state tax purposes for exhaustion, wear and tear of the solar energy  
14 device under section 167 of the internal revenue code.

15 F. To qualify for the credit under this section, the solar energy  
16 device and its installation shall meet the requirements of title 44, chapter  
17 11, article 11.

18 G. A solar hot water heater plumbing stub out that was installed by  
19 the builder of a house or dwelling unit before title was conveyed to the  
20 taxpayer does not qualify for a credit under this section, but the taxpayer  
21 may claim a credit for the device under section 43-1090 or 43-1176 under the  
22 circumstances, conditions and limitations prescribed by section 43-1090,  
23 subsection C or 43-1176, subsection C, as applicable.

24 Sec. 20. Section 43-1084, Arizona Revised Statutes, is amended to  
25 read:

26 43-1084. Credit for agricultural water conservation system

27 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
28 allowed against the taxes imposed by this title for expenses that the  
29 taxpayer incurred during the taxable year to purchase and install an  
30 agricultural water conservation system in this state. The amount of the  
31 credit is equal to seventy-five per cent of the qualifying expenses.

32 B. To qualify for the credit under this section:

33 1. The agricultural water conservation system must be primarily  
34 designed to substantially conserve water on land that is used by the taxpayer  
35 or the taxpayer's tenant to:

36 (a) Produce crops, fruits or other agricultural products.

37 (b) Raise, harvest or grow trees.

38 (c) Sustain livestock.

39 2. The expense must be consistent with a conservation plan that the  
40 taxpayer has filed and that is in effect with the United States department of  
41 agriculture soil conservation service.

42 C. Co-owners of the land on which the water conservation system is  
43 installed, including partners in a partnership and shareholders of an S  
44 corporation, as defined in section 1361 of the internal revenue code, may  
45 each claim only the pro rata share of the credit allowed under this section

1 based on the ownership interest. The total of the credits allowed all such  
2 owners may not exceed the amount that would have been allowed a sole owner.

3 D. If the allowable tax credit exceeds the taxes otherwise due under  
4 this title on the claimant's income, or if there are no taxes due under this  
5 title, the taxpayer may carry the amount of the claim not used to offset the  
6 taxes under this title forward for not more than five taxable years' income  
7 tax liability.

8 E. The credit allowed by this section is in lieu of any deduction for  
9 such expenses allowed by the internal revenue code and included under section  
10 43-1042 in computing taxable income.

11 Sec. 21. Section 43-1087, Arizona Revised Statutes, is amended to  
12 read:

13 43-1087. Credit for employment of temporary assistance for  
14 needy families recipients

15 A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018**, a credit is  
16 allowed against the taxes imposed by this title for net increases in  
17 qualified employment by the taxpayer of recipients of temporary assistance  
18 for needy families as defined in section 46-101 who are residents of this  
19 state. The amount of the credit is equal to the sum of the following:

20 1. One-fourth of the taxable wages paid to each employee in qualified  
21 employment positions, not to exceed five hundred dollars per qualified  
22 employment position, in the first year or partial year of employment. Wages  
23 that were subsidized as provided by section 46-299 shall not be included.

24 2. One-third of the taxable wages paid to each employee in qualified  
25 employment positions, not to exceed one thousand dollars per qualified  
26 employment position, in the second year of continuous employment. Wages that  
27 were subsidized as provided by section 46-299 shall not be included.

28 3. One-half of the taxable wages paid to each employee in qualified  
29 employment positions, not to exceed one thousand five hundred dollars per  
30 qualified employment position, in the third year of continuous employment.  
31 Wages that were subsidized as provided by section 46-299 shall not be  
32 included.

33 B. The credit allowed in this section is in lieu of any wage expense  
34 deduction taken for state tax purposes.

35 C. To qualify for a credit under this section:

36 1. All of the employees with respect to whom a credit is claimed must  
37 reside in this state and must be recipients of temporary assistance for needy  
38 families as defined in section 46-101 at the time the employee is hired.

39 2. A qualified employment position must meet all of the following  
40 requirements:

41 (a) The position must be classified as full-time employment.

42 (b) The employment must include health insurance coverage for the  
43 employee if the employer offers this coverage for employees who are not  
44 recipients of temporary assistance for needy families.

1 (c) The employer must pay compensation at least equal to the minimum  
2 wage or a wage comparable to that paid to employees who are not receiving  
3 temporary assistance for needy families based on the employee's training,  
4 skills and job classification.

5 (d) The employee must have been employed for at least ninety days  
6 during the first taxable year. An employee who is hired during the last  
7 ninety days of the taxable year shall be considered a new employee during the  
8 next taxable year. Periods for which the employee's wages were subsidized as  
9 provided by section 46-299 shall not be included as periods of employment.

10 (e) The employee was not employed by the taxpayer within twelve months  
11 before the current date of hire.

12 (f) The employee position is not eligible for any other employment  
13 credit pursuant to this title based on wages paid.

14 D. The net increase in the number of qualified employment positions  
15 shall be determined by comparing the average number of qualified employment  
16 positions during the taxable year with the immediately preceding taxable year  
17 based on the taxpayer's report to the department of economic security for  
18 unemployment purposes.

19 E. If the allowable tax credit exceeds the income taxes otherwise due  
20 on the claimant's income, the amount of the claim not used as an offset  
21 against income taxes may be carried forward as a tax credit against  
22 subsequent years' income tax liability for the period, not to exceed five  
23 consecutive taxable years.

24 F. Co-owners of a business, including partners in a partnership and  
25 shareholders of an S corporation as defined in section 1361 of the internal  
26 revenue code, may claim only the pro rata share of the credit allowed under  
27 this section based on the ownership interest. The total of the credits  
28 allowed all the owners of the business may not exceed the amount that would  
29 have been allowed for a sole owner of the business.

30 G. The department may adopt rules necessary for the administration of  
31 this section.

32 Sec. 22. Section 43-1088, Arizona Revised Statutes, is amended to  
33 read:

34 43-1088. Credit for contribution to qualifying charitable  
35 organizations; definitions

36 A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018,** a credit is  
37 allowed against the taxes imposed by this title for voluntary cash  
38 contributions by the taxpayer or on the taxpayer's behalf pursuant to section  
39 43-401, subsection ~~H~~ I during the taxable year to a qualifying charitable  
40 organization not to exceed:

41 1. Two hundred dollars in any taxable year for a single individual or  
42 a head of household.

43 2. Four hundred dollars in any taxable year for a married couple  
44 filing a joint return.

1           B. A husband and wife who file separate returns for a taxable year in  
2 which they could have filed a joint return may each claim only one-half of  
3 the tax credit that would have been allowed for a joint return.

4           C. If the allowable tax credit exceeds the taxes otherwise due under  
5 this title on the claimant's income, or if there are no taxes due under this  
6 title, the taxpayer may carry forward the amount of the claim not used to  
7 offset the taxes under this title for not more than five consecutive taxable  
8 years' income tax liability.

9           D. The credit allowed by this section:

10           1. Is allowed only if the taxpayer itemizes deductions pursuant to  
11 section 43-1042 for the taxable year.

12           2. Is in lieu of a deduction pursuant to section 170 of the internal  
13 revenue code and taken for state tax purposes.

14           E. Taxpayers taking a credit authorized by this section shall provide  
15 the name of the qualifying charitable organization and the amount of the  
16 contribution to the department of revenue on forms provided by the  
17 department.

18           F. A qualifying charitable organization shall provide the department  
19 of revenue with a written certification that it meets all criteria to be  
20 considered a qualifying charitable organization. The organization shall also  
21 notify the department of any changes that may affect the qualifications under  
22 this section.

23           G. The charitable organization's written certification must be signed  
24 by an officer of the organization under penalty of perjury. The written  
25 certification must include the following:

26           1. Verification of the organization's status under section 501(c)(3)  
27 of the internal revenue code or verification that the organization is a  
28 designated community action agency that receives community services block  
29 grant program monies pursuant to 42 United States Code section 9901.

30           2. Financial data indicating the organization's budget for the  
31 organization's prior operating year and the amount of that budget spent on  
32 services to residents of this state who either:

33           (a) Receive temporary assistance for needy families benefits.

34           (b) Are low income residents of this state.

35           (c) Are chronically ill or physically disabled children.

36           3. A statement that the organization plans to continue spending at  
37 least fifty per cent of its budget on services to residents of this state who  
38 receive temporary assistance for needy families benefits, who are low income  
39 residents of this state or who are chronically ill or physically disabled  
40 children.

41           H. The department shall review each written certification and  
42 determine whether the organization meets all the criteria to be considered a  
43 qualifying charitable organization and notify the organization of its  
44 determination. The department may also periodically request recertification

1 from the organization. The department shall compile and make available to  
2 the public a list of the qualifying charitable organizations.

3 I. For the purposes of this section:

4 1. "Chronically ill or physically disabled children" has the same  
5 meaning prescribed in section 36-262.

6 2. "Low income residents" means persons whose household income is less  
7 than one hundred fifty per cent of the federal poverty level.

8 3. "Qualifying charitable organization" means a charitable  
9 organization that is exempt from federal income taxation under section  
10 501(c)(3) of the internal revenue code or is a designated community action  
11 agency that receives community services block grant program monies pursuant  
12 to 42 United States Code section 9901. The organization must spend at least  
13 fifty per cent of its budget on services to residents of this state who  
14 receive temporary assistance for needy families benefits or low income  
15 residents of this state and their households or to chronically ill or  
16 physically disabled children who are residents of this state. Taxpayers  
17 choosing to make donations through an umbrella charitable organization that  
18 collects donations on behalf of member charities shall designate that the  
19 donation be directed to a member charitable organization that would qualify  
20 under this section on a stand-alone basis.

21 4. "Services" means cash assistance, medical care, child care, food,  
22 clothing, shelter, job placement and job training services or any other  
23 assistance that is reasonably necessary to meet immediate basic needs and  
24 that is provided and used in this state.

25 Sec. 23. Section 43-1089, Arizona Revised Statutes, is amended to  
26 read:

27 43-1089. Credit for contributions to school tuition  
28 organization; definitions

29 A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018**, a credit is  
30 allowed against the taxes imposed by this title for the amount of voluntary  
31 cash contributions by the taxpayer or on the taxpayer's behalf pursuant to  
32 section 43-401, subsection ~~H~~ I during the taxable year to a school tuition  
33 organization, but not exceeding:

34 1. Five hundred dollars in any taxable year for a single individual or  
35 a head of household.

36 2. Eight hundred twenty-five dollars in taxable year 2005 for a  
37 married couple filing a joint return.

38 3. One thousand dollars in taxable year 2006 and any subsequent  
39 taxable year for a married couple filing a joint return.

40 B. A husband and wife who file separate returns for a taxable year in  
41 which they could have filed a joint return may each claim only one-half of  
42 the tax credit that would have been allowed for a joint return.

43 C. If the allowable tax credit exceeds the taxes otherwise due under  
44 this title on the claimant's income, or if there are no taxes due under this  
45 title, the taxpayer may carry the amount of the claim not used to offset the

1 taxes under this title forward for not more than five consecutive taxable  
2 years' income tax liability.

3 D. The credit allowed by this section is in lieu of any deduction  
4 pursuant to section 170 of the internal revenue code and taken for state tax  
5 purposes.

6 E. The tax credit is not allowed if the taxpayer designates the  
7 taxpayer's contribution to the school tuition organization for the direct  
8 benefit of any dependent of the taxpayer.

9 F. A school tuition organization that receives a voluntary cash  
10 contribution pursuant to subsection A shall report electronically to the  
11 department, in a form prescribed by the department, by February 28 of each  
12 year the following information:

13 1. The name, address and contact name of the school tuition  
14 organization.

15 2. The total number of contributions received during the previous  
16 calendar year.

17 3. The total dollar amount of contributions received during the  
18 previous calendar year.

19 4. The total number of children awarded educational scholarships or  
20 tuition grants during the previous calendar year.

21 5. The total dollar amount of educational scholarships and tuition  
22 grants awarded during the previous calendar year.

23 6. For each school to which educational scholarships or tuition grants  
24 were awarded:

25 (a) The name and address of the school.

26 (b) The number of educational scholarships and tuition grants awarded  
27 during the previous calendar year.

28 (c) The total dollar amount of educational scholarships and tuition  
29 grants awarded during the previous calendar year.

30 G. For the purposes of this section:

31 1. "Handicapped student" means a student who has any of the following  
32 conditions:

33 (a) Hearing impairment.

34 (b) Visual impairment.

35 (c) Developmental delay.

36 (d) Preschool severe delay.

37 (e) Speech/language impairment.

38 2. "Qualified school" means a nongovernmental primary school or  
39 secondary school or a preschool for handicapped students that is located in  
40 this state, that does not discriminate on the basis of race, color, handicap,  
41 familial status or national origin and that satisfies the requirements  
42 prescribed by law for private schools in this state on January 1, 1997.

43 3. "School tuition organization" means a charitable organization in  
44 this state that is exempt from federal taxation under section 501(c)(3) of  
45 the internal revenue code and that allocates at least ninety per cent of its

1 annual revenue for educational scholarships or tuition grants to children to  
2 allow them to attend any qualified school of their parents' choice. In  
3 addition, to qualify as a school tuition organization the charitable  
4 organization shall provide educational scholarships or tuition grants to  
5 students without limiting availability to only students of one school.

6 Sec. 24. Section 43-1089.01, Arizona Revised Statutes, is amended to  
7 read:

8 43-1089.01. Tax credit; public school fees and contributions;  
9 definitions

10 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
11 allowed against the taxes imposed by this title for the amount of any fees or  
12 cash contributions by a taxpayer or on the taxpayer's behalf pursuant to  
13 section 43-401, subsection ~~H~~ I during the taxable year to a public school  
14 located in this state for the support of extracurricular activities or  
15 character education programs of the public school, but not exceeding:

16 1. Two hundred dollars for a single individual or a head of household.  
17 2. Three hundred dollars in taxable year 2005 for a married couple  
18 filing a joint return.

19 3. Four hundred dollars in taxable year 2006 and any subsequent  
20 taxable year for a married couple filing a joint return.

21 B. A husband and wife who file separate returns for a taxable year in  
22 which they could have filed a joint return may each claim only one-half of  
23 the tax credit that would have been allowed for a joint return.

24 C. The credit allowed by this section is in lieu of any deduction  
25 pursuant to section 170 of the internal revenue code and taken for state tax  
26 purposes.

27 D. If the allowable tax credit exceeds the taxes otherwise due under  
28 this title on the claimant's income, or if there are no taxes due under this  
29 title, the taxpayer may carry the amount of the claim not used to offset the  
30 taxes under this title forward for not more than five consecutive taxable  
31 years' income tax liability.

32 E. The site council of the public school that receives contributions  
33 that are not designated for a specific purpose shall determine how the  
34 contributions are used at the school site. If a charter school does not have  
35 a site council, the principal, director or chief administrator of the charter  
36 school shall determine how the contributions that are not designated for a  
37 specific purpose are used at the school site.

38 F. A public school that receives fees or a cash contribution pursuant  
39 to subsection A of this section shall report to the department, in a form  
40 prescribed by the department, by February 28 of each year the following  
41 information:

42 1. The total number of fee and cash contribution payments received  
43 during the previous calendar year.

44 2. The total dollar amount of fees and contributions received during  
45 the previous calendar year.

1           3. The total dollar amount of fees and contributions spent by the  
2 school during the previous calendar year.

3           G. For the purposes of this section:

4           1. "Character education programs" means a program described in section  
5 15-719.

6           2. "Extracurricular activities" means school sponsored activities that  
7 require enrolled students to pay a fee in order to participate, including  
8 fees for:

9           (a) Band uniforms.

10           (b) Equipment or uniforms for varsity athletic activities.

11           (c) Scientific laboratory materials.

12           (d) In-state or out-of-state trips that are solely for competitive  
13 events. Extracurricular activities do not include any senior trips or events  
14 that are recreational, amusement or tourist activities.

15           Sec. 25. Section 43-1089.02, Arizona Revised Statutes, is amended to  
16 read:

17           43-1089.02. Credit for donation of school site

18           A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
19 allowed against the taxes imposed by this title in the amount of thirty per  
20 cent of the value of real property and improvements donated by the taxpayer  
21 to a school district or a charter school for use as a school or as a site for  
22 the construction of a school.

23           B. To qualify for the credit:

24           1. The real property and improvements must be located in this state.

25           2. The real property and improvements must be conveyed unencumbered  
26 and in fee simple, except that:

27           (a) The conveyance must include as a deed restriction and protective  
28 covenant running with title to the land the requirement that as long as the  
29 donee holds title to the property the property shall only be used as a school  
30 or as a site for the construction of a school, subject to subsection I or J  
31 of this section.

32           (b) In the case of a donation to a charter school, the donor shall  
33 record a lien on the property as provided by subsection J, paragraph 3 of  
34 this section.

35           3. The conveyance shall not violate section 15-341, subsection D ~~and~~  
36 ~~OR~~ section 15-183, subsection ~~V~~ U.

37           C. For THE purposes of this section, the value of the donated property  
38 is the property's fair market value as determined in an appraisal as defined  
39 in section 32-3601 that is conducted by an independent party and that is paid  
40 for by the donee.

41           D. If the property is donated by co-owners, including partners in a  
42 partnership and shareholders of an S corporation, as defined in section 1361  
43 of the internal revenue code, each donor may claim only the pro rata share of  
44 the allowable credit under this section based on the ownership interest. If  
45 the property is donated by a husband and wife who file separate returns for a

1 taxable year in which they could have filed a joint return, they may  
2 determine between them the share of the credit each will claim. The total of  
3 the credits allowed all co-owner donors may not exceed the allowable credit.

4 E. If the allowable tax credit exceeds the taxes otherwise due under  
5 this title on the claimant's income, or if there are no taxes due under this  
6 title, the taxpayer may carry the amount of the claim not used to offset the  
7 taxes under this title forward for not more than five consecutive taxable  
8 years' income tax liability.

9 F. The credit under this section is in lieu of any deduction pursuant  
10 to section 170 of the internal revenue code taken for state tax purposes.

11 G. On written request by the donee, the donor shall disclose in  
12 writing to the donee the amount of the credit allowed pursuant to this  
13 section with respect to the property received by the donee.

14 H. A school district or charter school may refuse the donation of any  
15 property for purposes of this section.

16 I. If the donee is a school district:

17 1. The district shall notify the school facilities board established  
18 by section 15-2001 and furnish the board with any information the board  
19 requests regarding the donation. A school district shall not accept a  
20 donation pursuant to this section unless the school facilities board has  
21 reviewed the proposed donation and has issued a written determination that  
22 the real property and improvements are suitable as a school site or as a  
23 school. The school facilities board shall issue a determination that the  
24 real property and improvements are not suitable as a school site or as a  
25 school if the expenses that would be necessary to make the property suitable  
26 as a school site or as a school exceed the value of the proposed donation.

27 2. The district may sell any donated property pursuant to section  
28 15-342, but the proceeds from the sale shall only be used for capital  
29 projects. The school facilities board shall withhold an amount that  
30 corresponds to the amount of the proceeds from any monies that would  
31 otherwise be due the school district from the school facilities board  
32 pursuant to section 15-2041.

33 J. If the donee is a charter school:

34 1. The charter school shall:

35 (a) Immediately notify the sponsor of the charter school by certified  
36 mail and shall furnish the sponsor with any information requested by the  
37 sponsor regarding the donation during the ten year period after the  
38 conveyance is recorded.

39 (b) Notify the sponsor by certified mail, and the sponsor shall notify  
40 the state treasurer, in the event of the charter school's financial failure  
41 or if the charter school:

42 (i) Fails to establish a charter school on the property within  
43 forty-eight months after the conveyance is recorded.

44 (ii) Fails to provide instruction to pupils on the property within  
45 forty-eight months after the conveyance is recorded.

1 (iii) Establishes a charter school on the property but subsequently  
2 ceases to operate the charter school on the property for twenty-four  
3 consecutive months or fails to provide instruction to pupils on the property  
4 for twenty-four consecutive months.

5 2. The charter school, or a successor in interest, shall pay to the  
6 state treasurer the amount of the credit allowed under this section, or if  
7 that amount is unknown, the amount of the allowable credit under this  
8 section, if any of the circumstances listed in paragraph 1, subdivision (b)  
9 of this subsection ~~occur~~ OCCURS. If the amount is not paid within one year  
10 after the treasurer receives notice under paragraph 1, subdivision (b) of  
11 this subsection, a penalty and interest shall be added, determined pursuant  
12 to title 42, chapter 1, article 3.

13 3. A tax credit under this section constitutes a lien on the property,  
14 which the donor must record along with the title to the property to qualify  
15 for the credit. The amount of the lien is the amount of the allowable credit  
16 under this section, adjusted according to the average change in the GDP price  
17 deflator, as defined in section 41-563, for each calendar year since the  
18 donation, but not exceeding twelve and one-half per cent more than the  
19 allowable credit. The lien is subordinate to any liens securing the  
20 financing of the school construction. The lien is extinguished on the  
21 earliest of the following:

22 (a) Ten years after the lien is recorded. After that date, the  
23 charter school, or a successor in interest, may request the state treasurer  
24 to release the lien.

25 (b) On payment to the state treasurer by the donee charter school, or  
26 by a successor in interest, of the amount of the allowable credit under this  
27 section, either voluntarily or as required by paragraph 2 of this subsection.  
28 After the required amount is paid, the charter school or successor in  
29 interest may request the state treasurer to release the lien.

30 (c) On conveyance of fee simple title to the property to a school  
31 district.

32 (d) On enforcement and satisfaction of the lien pursuant to paragraph  
33 4 of this subsection.

34 4. The state treasurer shall enforce the lien by foreclosure within  
35 one year after receiving notice of any of the circumstances described in  
36 paragraph 1, subdivision (b) of this subsection.

37 5. Subject to paragraphs 3 and 4 of this subsection, the charter  
38 school may sell any donated property.

39 Sec. 26. Section 43-1090, Arizona Revised Statutes, is amended to  
40 read:

41 43-1090. Credit for solar hot water heater plumbing stub outs  
42 and electric vehicle recharge outlets installed in  
43 houses constructed by taxpayer

44 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
45 allowed against the taxes imposed by this title for costs incurred during the

1 taxable year of installing or including in one or more houses or dwelling  
2 units located in this state and constructed by the taxpayer one or more:  
3 1. Solar hot water plumbing stub outs. To qualify for the credit, the  
4 stub out must:  
5 (a) Include two insulated three-fourths inch copper pipes and at least  
6 two pairs of wires for monitoring and control purposes that project from  
7 the dwelling roof or other suitable location and that are connected to the  
8 domestic hot water transport and storage system.  
9 (b) Be located and configured to allow sufficient solar access and  
10 exposure and to allow ready installation of solar water heating devices  
11 without further expense or effort to reach, use or serve the domestic hot  
12 water system of the house or dwelling UNIT.  
13 2. Electric vehicle recharge outlets. To qualify for the credit, the  
14 outlet must be connected to the utility system by a dedicated line that:  
15 (a) Is capable of operating at normal secondary voltages.  
16 (b) Meets applicable local building safety codes.  
17 (c) Is commensurate and consistent with electric vehicle recharging  
18 needs and methods.  
19 B. The credit shall not exceed seventy-five dollars for each  
20 installation for each separate house or dwelling unit.  
21 C. The taxpayer may elect to transfer a credit under this section to a  
22 purchaser or transferee of the house or dwelling unit. If the taxpayer  
23 elects to transfer the credit, the taxpayer shall deliver to the purchaser or  
24 transferee a written statement that the taxpayer has elected not to claim the  
25 credit and that the purchaser or transferee may claim the credit, subject to  
26 the conditions and limitations prescribed by this section.  
27 D. If the allowable credit exceeds the taxes otherwise due under this  
28 title on the claimant's income, or if there are no taxes due under this  
29 title, the amount of the credit not used to offset taxes under this title may  
30 be carried forward to the next five consecutive taxable years as a credit  
31 against subsequent years' income tax liability.  
32 E. Co-owners of a business, including partners in a partnership and  
33 shareholders of an S corporation, as defined in section 1361 of the internal  
34 revenue code, may each claim only the pro rata share of the credit allowed  
35 under this section based on the ownership interest. The total of the credits  
36 allowed all such owners may not exceed the amount that would have been  
37 allowed a sole owner.  
38 F. The credit allowed under this section is in lieu of any expenses  
39 taken for installing solar stub outs or electric vehicle recharge outlets ~~to~~  
40 ~~reach~~ IN COMPUTING Arizona taxable income.



1 regard to their proportional ownership interest. The total of the credits  
2 allowed all such owners may not exceed the amount that would have been  
3 allowed for a sole owner of the company.

4 E. If the allowable tax credit for a taxpayer exceeds the taxes  
5 otherwise due under this title on the claimant's income, or if there are no  
6 taxes due under this title, the taxpayer may carry the amount of the claim  
7 not used to offset the taxes under this title forward for not more than five  
8 consecutive taxable years' income tax liability.

9 F. All or part of any unclaimed amount of credit under this section  
10 may be sold or otherwise transferred under the following conditions:

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

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

19 (a) The name of the taxpayer.

20 (b) The date of the transfer.

21 (c) The amount of the transfer.

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

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

25 (f) Any other information required by rule.

26 3. A sale or transfer of the credit does not extend the time in which  
27 the credit can be used. The carryforward period of time under subsection E  
28 of this section for a credit that is sold or transferred begins on the date  
29 the credit was originally earned.

30 4. Except as provided by subsection C of this section, if a transferor  
31 was not qualified or was disqualified from using the credit at the time of  
32 the transfer, the department shall either disallow the credit claimed by a  
33 transferee or recapture the credit from the transferee through any authorized  
34 collection method. The transferee's recourse is against the transferor.

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

38 G. The department of revenue shall maintain annual data on the total  
39 amount of monies credited pursuant to this section, and shall provide that  
40 data to the department of commerce on request.

41 H. The department of revenue, with the cooperation of the department  
42 of commerce, shall adopt rules and publish and prescribe forms and procedures  
43 as necessary to effectuate the purposes of this section.

1 I. A taxpayer that claims a credit for motion picture infrastructure  
2 projects under this section shall not claim a credit under section 43-1163  
3 for the same costs.

4 J. The credit allowed by this section is in lieu of any allowance for  
5 state tax purposes of a deduction of those expenses allowed by the internal  
6 revenue code.

7 K. For the purposes of this section, "motion picture infrastructure  
8 project" has the same meaning prescribed in section 41-1517.01.

9 Sec. 28. Section 43-1165, Arizona Revised Statutes, is amended to  
10 read:

11 43-1165. Credit for employment by qualified defense contractor

12 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
13 allowed against the taxes imposed by this title for:

14 1. Net increases in employment under United States department of  
15 defense contracts during the taxable year, as computed under subsection D of  
16 this section, by a qualified defense contractor that is certified by the  
17 department of commerce under section 41-1508.

18 2. Net increases in private commercial employment during the taxable  
19 year, as computed under subsection E of this section, by a qualified defense  
20 contractor that is certified by the department of commerce under section  
21 41-1508 due to full-time equivalent employee positions transferred during the  
22 taxable year by the taxpayer from exclusively defense related activities to  
23 employment by the taxpayer in exclusively private commercial activities.

24 B. The amount of the credit is a dollar amount allowed for each  
25 full-time equivalent employee position created, determined as follows:

26 1st year	\$2,500
27 2nd year	\$2,000
28 3rd year	\$1,500
29 4th year	\$1,000
30 5th year	\$ 500

31 C. If the allowable tax credit exceeds the taxes otherwise due under  
32 this title on the claimant's income, or if there are no taxes due under this  
33 title, the taxpayer may carry the amount of the claim not used to offset the  
34 taxes under this title forward until taxable years beginning from and after  
35 December 31, 2011 as a credit against subsequent years' income tax liability,  
36 regardless of continuing certification as a qualified defense contractor.

37 D. The net increase in employment under defense related contracts  
38 shall be determined as follows:

39 1. Establish an employment baseline for the taxpayer based on a  
40 multiyear forecast of employment on United States department of defense  
41 contracts that was submitted to the department of defense before June 1,  
42 1992. The annual average employment forecast for the first year the taxpayer  
43 qualified is the baseline. If the taxpayer did not make such a forecast  
44 before June 1, 1992, the baseline is the average annual employment as  
45 reported to the department of economic security during the preceding taxable

1 year. If a taxpayer qualifies in the same year it relocates into this state,  
2 the taxpayer's baseline is zero.

3 2. For the first year of the credit, the taxpayer's net increase in  
4 average employment is the increase in employment reported to the department  
5 of economic security for the taxable year over the employment baseline.

6 3. For each succeeding year of the credit, the taxpayer's net increase  
7 in average employment is the increase in employment reported to the  
8 department of economic security for the taxable year over the preceding  
9 taxable year's average employment.

10 E. In computing the amount of credit allowed under subsection A,  
11 paragraph 2 of this section, the taxpayer shall:

12 1. Prorate employment during the taxable year according to the date of  
13 transfer from defense to private commercial activities or the date of  
14 transfer from private commercial activities to defense.

15 2. Compute and subtract an amount pursuant to subsection B of this  
16 section for full-time equivalent employee positions that were transferred  
17 during the taxable year by the taxpayer from exclusively private commercial  
18 activities to exclusively defense related activities.

19 F. The taxpayer shall account for qualifying full-time equivalent  
20 employee positions on a first-in first-out basis. If a decrease in  
21 qualifying employment occurs, the taxpayer shall subtract the decrease from  
22 the earliest qualifying positions.

23 G. A credit is not allowed under both subsection A, paragraphs 1 and 2  
24 of this section with respect to the same employee position. A full-time  
25 equivalent employee position may be considered for purposes of computing the  
26 credit under either subsection A, paragraph 1 or 2 of this section, but not  
27 both.

28 H. A credit is not allowed under this section with respect to  
29 employment that was transferred from an outside contractor in this state to  
30 in-house employment by the taxpayer solely for purposes of qualifying for the  
31 credit.

32 I. A taxpayer that claims a credit under section 43-1161, 43-1164.01  
33 or 43-1167 may not claim a credit under this section with respect to the same  
34 employee positions.

35 J. Co-owners of a business, including corporate partners in a  
36 partnership, may each claim only the pro rata share of the credit allowed  
37 under this section based on the ownership interest. The total of the credits  
38 allowed all such owners may not exceed the amount that would have been  
39 allowed for a sole owner of the business.

40 Sec. 29. Section 43-1166, Arizona Revised Statutes, is amended to  
41 read:

42 43-1166. Credit for property taxes paid by qualified defense  
43 contractor

44 A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018**, a credit is  
45 allowed against the taxes imposed by this title equal to a portion of the

1 amount paid as taxes during the taxable year by a qualified defense  
2 contractor that is certified by the department of commerce under section  
3 41-1508 on property in this state that is classified as class one, paragraphs  
4 12 and 13 pursuant to section 42-12001.

5 B. The amount of the credit is determined as follows:

6 1. Multiply the amount paid as taxes on property classified as class  
7 one, paragraphs 12 and 13 pursuant to section 42-12001 in this state during  
8 the taxable year by a percentage based on net new defense related employment,  
9 determined by subtracting the employment baseline determined pursuant to  
10 section 43-1165, subsection D, paragraph 1 from average annual employment as  
11 reported to the department of economic security for the taxable year, as  
12 follows:

<u>New employment</u>	<u>Credit percentage</u>
14 More than 900	40%
15 601 - 900	30%
16 301 - 600	20%
17 1 - 300	10%

18 2. Multiply the amount determined under paragraph 1 of this subsection  
19 by a percentage determined by dividing the taxpayer's total gross income from  
20 United States department of defense contracts apportioned to this state by  
21 the taxpayer's total gross income from all sources apportioned to this state.

22 C. If the allowable tax credit exceeds the taxes otherwise due under  
23 this title on the claimant's income, or if there are no taxes due under this  
24 title, the taxpayer may carry the amount of the claim not used to offset the  
25 taxes under this title forward until taxable years beginning from and after  
26 December 31, 2011 as a credit against subsequent years' income tax liability,  
27 regardless of continuing certification as a qualified defense contractor.

28 D. Co-owners of a business, including corporate partners in a  
29 partnership, may each claim only the pro rata share of the credit allowed  
30 under this section based on the ownership interest. The total of the credits  
31 allowed all such owners may not exceed the amount that would have been  
32 allowed for a sole owner of the business.

33 Sec. 30. Section 43-1167, Arizona Revised Statutes, is amended to  
34 read:

35 43-1167. Credit for increased employment in military reuse  
36 zones; definition

37 A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018,** a credit is  
38 allowed against the taxes imposed by this title for net increases in  
39 employment by the taxpayer of full-time employees working in a military reuse  
40 zone, established under title 41, chapter 10, article 3, and who are  
41 primarily engaged in providing aviation or aerospace services or in  
42 manufacturing, assembling or fabricating aviation or aerospace products. The  
43 amount of the credit is a dollar amount allowed for each new employee,  
44 determined as follows:

1           1. With respect to each employee other than a dislocated military base  
2 employee:

3           1st year of employment	\$ 500
4           2nd year of employment	\$1,000
5           3rd year of employment	\$1,500
6           4th year of employment	\$2,000
7           5th year of employment	\$2,500

8           2. With respect to each dislocated military base employee:

9           1st year of employment	\$1,000
10          2nd year of employment	\$1,500
11          3rd year of employment	\$2,000
12          4th year of employment	\$2,500
13          5th year of employment	\$3,000

14          B. If the allowable tax credit exceeds the taxes otherwise due under  
15 this title on the claimant's income, or if there are no taxes due under this  
16 title, the amount of the claim not used to offset the taxes under this title  
17 may be carried forward as a credit against subsequent years' income tax  
18 liability for the period, not to exceed five taxable years, if the business  
19 remains in the military reuse zone.

20          C. The net increase in the number of employees for purposes of this  
21 section shall be determined by comparing the taxpayer's average employment in  
22 the military reuse zone during the taxable year with the taxpayer's previous  
23 year's fourth quarter employment in the zone, based on the taxpayer's report  
24 to the department of economic security for unemployment insurance purposes  
25 but considering only employment in the zone.

26          D. Co-owners of a business, including corporate partners in a  
27 partnership, may each claim only the pro rata share of the credit allowed  
28 under this section based on the ownership interest. The total of the credits  
29 allowed all such owners may not exceed the amount that would have been  
30 allowed for a sole owner of the business.

31          E. A credit is not allowed under this section with respect to an  
32 employee whose place of employment is relocated by the taxpayer from a  
33 location in this state to the military reuse zone unless the employee is  
34 engaged in aviation or aerospace services or in manufacturing, assembling or  
35 fabricating aviation or aerospace products and the taxpayer maintains at  
36 least the same number of employees in this state but outside the zone.

37          F. A taxpayer who claims a credit under section 43-1161, 43-1164.01 or  
38 43-1165 may not claim a credit under this section with respect to the same  
39 employees.

40          G. For the purposes of this section, "dislocated military base  
41 employee" means a civilian who previously had permanent full-time civilian  
42 employment on the military facility as of the date the closure of the  
43 facility was finally determined under federal law, as certified by the  
44 department of commerce.

1           Sec. 31. Section 43-1167.01, Arizona Revised Statutes, is amended to  
2 read:

3           43-1167.01. Credit for employing national guard members

4           A. For taxable years beginning from and after December 31, 2005 **AND**  
5 **ENDING BEFORE JANUARY 1, 2018**, a credit is allowed against the taxes imposed  
6 by this title for a taxpayer whose employee is a member of the Arizona  
7 national guard if the employee is placed on active duty. The amount of the  
8 credit is one thousand dollars for each employee who is placed on active duty  
9 by the Arizona national guard.

10          B. To qualify for the credit:

11          1. The employee must be a member of the Arizona national guard who is  
12 employed by the taxpayer in a full-time equivalent position when the employee  
13 is placed on active duty.

14          2. Each member of the Arizona national guard who is employed must have  
15 served during the taxable year on active duty for training that exceeds the  
16 required annual training period, including any activation for federal or  
17 state contingencies or emergencies.

18          C. If the allowable credit exceeds the taxes otherwise due under this  
19 title on the claimant's income, or if there are no taxes due under this  
20 title, the amount of the claim not used to offset taxes under this title may  
21 be carried forward for not more than five consecutive taxable years as a  
22 credit against subsequent years' income tax liability.

23          D. The credit under this section may be claimed only once by the  
24 taxpayer in any taxable year with respect to each employee who is placed on  
25 active duty by the Arizona national guard, but may be claimed again for that  
26 employee in a subsequent taxable year if that employee remains on active duty  
27 or is placed again on active duty in a subsequent taxable year.

28          E. Co-owners of a business, including corporate partners in a  
29 partnership, may each claim only the pro rata share of the credit allowed  
30 under this section based on the ownership interest. The total of the credits  
31 allowed all such owners may not exceed the amount that would have been  
32 allowed a sole owner.

33           Sec. 32. Section 43-1168, Arizona Revised Statutes, as amended by Laws  
34 2008, chapter 290, section 5, is amended to read:

35           43-1168. Credit for increased research activities

36           A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2019**, a credit is  
37 allowed against the taxes imposed by this title in an amount determined  
38 pursuant to section 41 of the internal revenue code, except that:

39           1. The amount of the credit is computed as follows:

40           (a) Add:

41           (i) The excess, if any, of the qualified research expenses for the  
42 taxable year over the base amount as defined in section 41(c) of the internal  
43 revenue code.

44           (ii) The basic research payments determined under section 41(e)(1)(A)  
45 of the internal revenue code.

1 (b) If the sum computed under subdivision (a) is two million five  
2 hundred thousand dollars or less, the credit is equal to twenty-four per cent  
3 of that amount.

4 (c) If the sum computed under subdivision (a) is over two million five  
5 hundred thousand dollars, the credit is equal to six hundred thousand dollars  
6 plus fifteen per cent of any amount exceeding two million five hundred  
7 thousand dollars, except that:

8 (i) For taxable years beginning from and after December 31, 2000  
9 through December 31, 2001, the credit shall not exceed one million five  
10 hundred thousand dollars.

11 (ii) For taxable years beginning from and after December 31, 2001  
12 through December 31, 2002, the credit shall not exceed two million five  
13 hundred thousand dollars.

14 2. Qualified research includes only research conducted in this state  
15 including research conducted at a university in this state and paid for by  
16 the taxpayer.

17 3. If two or more taxpayers, including corporate partners in a  
18 partnership, share in the eligible expenses, each taxpayer is eligible to  
19 receive a proportionate share of the credit.

20 4. The credit under this section applies only to expenses incurred  
21 from and after December 31, 1993.

22 5. The termination provisions of section 41 of the internal revenue  
23 code do not apply.

24 B. If the allowable credit under this section exceeds the taxes  
25 otherwise due under this title on the claimant's income, or if there are no  
26 taxes due under this title, the amount of the credit not used to offset taxes  
27 may be carried forward to the next fifteen consecutive taxable years. The  
28 amount of credit carryforward from taxable years beginning from and after  
29 December 31, 2000 through December 31, 2002 that may be used under this  
30 subsection in any taxable year may not exceed the taxpayer's tax liability  
31 under this title or five hundred thousand dollars, whichever is less, minus  
32 the credit under this section for the current taxable year's qualified  
33 research expenses. The amount of credit carryforward from taxable years  
34 beginning from and after December 31, 2002 that may be used under this  
35 subsection in any taxable year may not exceed the taxpayer's tax liability  
36 under this title minus the credit under this section for the current taxable  
37 year's qualified research expenses.

38 C. If a taxpayer has qualified research expenses that are carried  
39 forward from taxable years beginning before January 1, 2001, the amount of  
40 the expenses carried forward shall be converted to a credit carryforward by  
41 multiplying the amount of the qualified expenses carried forward by twenty  
42 per cent. A credit carryforward determined under this subsection may be  
43 carried forward to not more than fifteen years from the year in which the  
44 expenses were incurred. The amount of credit carryforward from taxable years  
45 beginning before January 1, 2001 that may be used under this subsection in

1 any taxable year may not exceed the taxpayer's tax liability under this title  
2 or five hundred thousand dollars, whichever is less, minus the credit under  
3 this section for the current taxable year's qualified research expenses. The  
4 total amount of credit carryforward from taxable years beginning before  
5 January 1, 2003 that may be used in any taxable year under subsection B and  
6 this subsection may not exceed the taxpayer's tax liability under this title  
7 or five hundred thousand dollars, whichever is less, minus the credit under  
8 this section for the current taxable year's qualified research expenses.

9 Sec. 33. Section 43-1168, Arizona Revised Statutes, as added by Laws  
10 2008, chapter 290, section 7, is amended to read:

11 43-1168. Credit for increased research activity

12 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2027, a credit is  
13 allowed against the taxes imposed by this title in an amount determined  
14 pursuant to section 41 of the internal revenue code, except that:

15 1. The amount of the credit is computed as follows:

16 (a) Add:

17 (i) The excess, if any, of the qualified research expenses for the  
18 taxable year over the base amount as defined in section 41(c) of the internal  
19 revenue code.

20 (ii) The basic research payments determined under section 41(e)(1)(A)  
21 of the internal revenue code.

22 (b) If the sum computed under subdivision (a) is two million five  
23 hundred thousand dollars or less, the credit is equal to twenty per cent of  
24 that amount.

25 (c) If the sum computed under subdivision (a) is over two million five  
26 hundred thousand dollars, the credit is equal to five hundred thousand  
27 dollars plus eleven per cent of any amount exceeding two million five hundred  
28 thousand dollars, except that:

29 (i) For taxable years beginning from and after December 31, 2000  
30 through December 31, 2001, the credit shall not exceed one million five  
31 hundred thousand dollars.

32 (ii) For taxable years beginning from and after December 31, 2001  
33 through December 31, 2002, the credit shall not exceed two million five  
34 hundred thousand dollars.

35 2. Qualified research includes only research conducted in this state  
36 including research conducted at a university in this state and paid for by  
37 the taxpayer.

38 3. If two or more taxpayers, including corporate partners in a  
39 partnership, share in the eligible expenses, each taxpayer is eligible to  
40 receive a proportionate share of the credit.

41 4. The credit under this section applies only to expenses incurred  
42 from and after December 31, 1993.

43 5. The termination provisions of section 41 of the internal revenue  
44 code do not apply.



1 basis of any asset with respect to which the taxpayer has claimed a credit  
2 shall be reduced by the amount of credit claimed with respect to that  
3 asset. This credit does not affect the deductibility for depreciation or  
4 amortization of the remaining adjusted basis of the asset.

5 C. A taxpayer may claim a credit under this section with respect to  
6 new qualifying construction within ten years after the start of the  
7 facility's initial construction, but a credit is not allowed under this  
8 section for any amount spent more than ten years after the start of the  
9 facility's initial construction.

10 D. A taxpayer qualifies for the credit under this section if the  
11 taxpayer owns the facility or leases the facility or any component of the  
12 facility for a term of five or more years.

13 E. If the allowable tax credit exceeds seventy-five per cent of the  
14 taxes otherwise due under this title on the claimant's income, or if there  
15 are no taxes due under this title, the amount of the claim not used to offset  
16 taxes under this title may be carried forward for not more than fifteen  
17 taxable years as a credit against subsequent years' income tax liability.

18 F. Co-owners of a business, including partners in a partnership, may  
19 each claim only the pro rata share of the credit allowed under this section  
20 based on the ownership interest. The total of the credits allowed all such  
21 owners may not exceed the amount that would have been allowed for a sole  
22 owner of the business.

23 G. If either of the following circumstances occurs with respect to a  
24 qualified environmental technology manufacturing, producing or processing  
25 facility, the tax imposed by this title for the taxable year in which the  
26 circumstance occurs shall be increased by the full amount of all credits  
27 previously allowed under this section with respect to that facility:

28 1. The taxpayer abandons construction before the facility is placed in  
29 service.

30 2. Before the facility is placed in service, the taxpayer changes  
31 plans in such a manner as to no longer qualify as an environmental technology  
32 manufacturing, producing or processing facility under section 41-1514.02.

33 H. If, within five years after being placed in service, an operating  
34 environmental technology manufacturing, producing or processing facility with  
35 respect to which a credit has been allowed under this section ceases for any  
36 reason to operate as an environmental technology manufacturing, producing or  
37 processing facility as described in section 41-1514.02, the tax imposed by  
38 this title for the taxable year shall be increased by an amount determined by  
39 multiplying the full amount of all credits previously allowed under this  
40 section with respect to that facility by a percentage determined as follows:

41 1. If the facility was placed in service less than one year before  
42 ceasing to operate as an environmental technology manufacturing, producing or  
43 processing facility, one hundred per cent.

1           2. If the facility was placed in service at least one year but not  
2 more than two years before ceasing to operate as an environmental technology  
3 manufacturing, producing or processing facility, eighty per cent.

4           3. If the facility was placed in service at least two years but less  
5 than three years before ceasing to operate as an environmental technology  
6 manufacturing, producing or processing facility, sixty per cent.

7           4. If the facility was placed in service at least three years but less  
8 than four years before ceasing to operate as an environmental technology  
9 manufacturing, producing or processing facility, forty per cent.

10          5. If the facility was placed in service at least four years but less  
11 than five years before ceasing to operate as an environmental technology  
12 manufacturing, producing or processing facility, twenty per cent.

13          I. The department by rule shall prescribe record keeping requirements  
14 for taxpayers who claim a credit under this section.

15          Sec. 35. Section 43-1170, Arizona Revised Statutes, is amended to  
16 read:

17          43-1170. Credit for pollution control equipment

18          A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
19 allowed against the taxes imposed by this title for expenses that the  
20 taxpayer incurred during the taxable year to purchase real or personal  
21 property that is used in the taxpayer's trade or business in this state to  
22 control or prevent pollution. The amount of the credit is equal to ten per  
23 cent of the purchase price.

24          B. Property that qualifies for the credit under this section includes  
25 that portion of a structure, building, installation, excavation, machine,  
26 equipment or device and any attachment or addition to or reconstruction,  
27 replacement or improvement of that property that is directly used,  
28 constructed or installed in this state for the purpose of meeting or  
29 exceeding rules or regulations adopted by the United States environmental  
30 protection agency, the department of environmental quality or a political  
31 subdivision of this state to prevent, monitor, control or reduce air, water  
32 or land pollution that results from the taxpayer's direct operating  
33 activities in conducting a trade or business in this state.

34          C. The credit allowed pursuant to this section does not apply to:

35           1. The purchase of any personal property that is attached to a motor  
36 vehicle.

37           2. Any property that has a substantial use for a purpose other than  
38 the purposes described in subsection B.

39           3. Any portion of pollution control property that is included as a  
40 standard and integral part of another property.

41          D. Amounts that qualify for a credit under this section must be  
42 includible in the taxpayer's adjusted basis for the property. The adjusted  
43 basis of any property with respect to which the taxpayer has claimed a credit  
44 shall be reduced by the amount of credit claimed with respect to that asset.

1 This credit does not affect the deductibility for depreciation or  
2 amortization of the remaining adjusted basis of the asset.

3 E. Co-owners of a business, including corporate partners in a  
4 partnership, may each claim only the pro rata share of the credit allowed  
5 under this section based on the ownership interest. The total of the credits  
6 allowed all such owners may not exceed the amount that would have been  
7 allowed a sole owner.

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

13 G. The maximum credit that a taxpayer may claim under this section is  
14 five hundred thousand dollars in a taxable year.

15 Sec. 36. Section 43-1170.01, Arizona Revised Statutes, is amended to  
16 read:

17 43-1170.01. Credit for agricultural pollution control equipment

18 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
19 allowed against the taxes imposed by this title for expenses that a taxpayer,  
20 involved in the commercial production of livestock, livestock products or  
21 agricultural, horticultural, viticultural or floricultural crops or products,  
22 incurred during the taxable year to purchase tangible personal property that  
23 is primarily used in the taxpayer's trade or business in this state to  
24 control or prevent pollution. The amount of the credit is equal to  
25 twenty-five per cent of the cost of the real or personal property. The  
26 maximum credit that a taxpayer may claim under this section is twenty-five  
27 thousand dollars in a taxable year.

28 B. Property that qualifies for the credit under this section includes  
29 the portion of a structure, building, installation, excavation, machine,  
30 equipment or device and any attachment or addition to or reconstruction,  
31 replacement or improvement of that property that is directly used,  
32 constructed or installed in this state to prevent, monitor, control or reduce  
33 air, water or land pollution.

34 C. Amounts that qualify for a credit under this section must be  
35 includible in the taxpayer's adjusted basis for the property. The adjusted  
36 basis of any property with respect to which the taxpayer has claimed a credit  
37 shall be reduced by the amount of credit claimed with respect to that asset.  
38 This credit does not affect the deductibility for depreciation or  
39 amortization of the remaining adjusted basis of the asset.

40 D. Co-owners of a business, including corporate partners in a  
41 partnership, may each claim only the pro rata share of the credit allowed  
42 under this section based on the ownership interest. The total of the credits  
43 allowed all such owners may not exceed the amount that would have been  
44 allowed a sole owner.

1 E. If the allowable tax credit exceeds the taxes otherwise due under  
2 this title on the claimant's income, or if there are no taxes due under this  
3 title, the amount of the claim not used to offset the taxes under this title  
4 may be carried forward to the next five consecutive taxable years as a credit  
5 against subsequent years' income tax liability.

6 F. A taxpayer who claims a credit for pollution control equipment  
7 under this section shall not claim a credit under section 43-1170 for the  
8 same equipment or expense.

9 Sec. 37. Section 43-1175, Arizona Revised Statutes, is amended to  
10 read:

11 43-1175. Credit for employment of temporary assistance for  
12 needy families recipients

13 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
14 allowed against the taxes imposed by this title for net increases in  
15 qualified employment by the taxpayer of recipients of temporary assistance  
16 for needy families as defined in section 46-101 who are residents of this  
17 state. The amount of the credit is equal to the sum of the following:

18 1. One-fourth of the taxable wages paid to each employee in qualified  
19 employment positions, not to exceed five hundred dollars per qualified  
20 employment position, in the first year or partial year of employment. Wages  
21 that were subsidized as provided by section 46-299 shall not be included.

22 2. One-third of the taxable wages paid to each employee in qualified  
23 employment positions, not to exceed one thousand dollars per qualified  
24 employment position, in the second year of continuous employment. Wages that  
25 were subsidized as provided by section 46-299 shall not be included.

26 3. One-half of the taxable wages paid to each employee in qualified  
27 employment positions, not to exceed one thousand five hundred dollars per  
28 qualified employment position, in the third year of continuous employment.  
29 Wages that were subsidized as provided by section 46-299 shall not be  
30 included.

31 B. The credit allowed in this section is in lieu of any wage expense  
32 deduction taken for state tax purposes.

33 C. To qualify for a credit under this section:

34 1. All of the employees with respect to whom a credit is claimed must  
35 reside in this state and must be recipients of temporary assistance for needy  
36 families as defined in section 46-101 at the time the employee is hired.

37 2. A qualified employment position must meet all of the following  
38 requirements:

39 (a) The position must be classified as full-time employment.

40 (b) The employment must include health insurance coverage for the  
41 employee if the employer offers this coverage for employees who are not  
42 recipients of temporary assistance for needy families.

43 (c) The employer must pay compensation at least equal to the minimum  
44 wage or a wage comparable to that paid to employees who are not receiving

1 temporary assistance for needy families based on the employee's training,  
2 skills and job classification.

3 (d) The employee must have been employed for at least ninety days  
4 during the first taxable year. An employee who is hired during the last  
5 ninety days of the taxable year shall be considered a new employee during the  
6 next taxable year. Periods for which the employee's wages were subsidized as  
7 provided by section 46-299 shall not be included as periods of employment.

8 (e) The employee was not employed by the taxpayer within twelve months  
9 before the current date of hire.

10 (f) The employee position is not eligible for any other employment  
11 credit pursuant to this title based on wages paid.

12 D. The net increase in the number of qualified employment positions  
13 shall be determined by comparing the average number of qualified employment  
14 positions during the taxable year with the immediately preceding taxable year  
15 based on the taxpayer's report to the department of economic security for  
16 unemployment purposes.

17 E. If the allowable tax credit exceeds the income taxes otherwise due  
18 on the claimant's income, the amount of the claim not used as an offset  
19 against income taxes may be carried forward as a tax credit against  
20 subsequent years' income tax liability for the period, not to exceed five  
21 consecutive taxable years.

22 F. Co-owners of a business, including corporate partners in a  
23 partnership, may claim only the pro rata share of the credit allowed under  
24 this section based on the ownership interest. The total of the credits  
25 allowed all of the owners of the business may not exceed the amount that  
26 would have been allowed for a sole owner of the business.

27 G. The department may adopt rules necessary for the administration of  
28 this section.

29 Sec. 38. Section 43-1176, Arizona Revised Statutes, is amended to  
30 read:

31 43-1176. Credit for solar hot water heater plumbing stub outs  
32 and electric vehicle recharge outlets installed in  
33 houses constructed by taxpayer

34 A. **FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018**, a credit is  
35 allowed against the taxes imposed by this title for costs incurred during the  
36 taxable year of installing or including in one or more houses or dwelling  
37 units located in this state and constructed by the taxpayer one or more:

38 1. Solar hot water plumbing stub outs. To qualify for the credit the  
39 stub out must:

40 (a) Include two insulated three-fourths inch copper pipes and at least  
41 two pairs of wires for monitoring and control purposes that project from the  
42 dwelling roof or other suitable location and that are connected to the  
43 domestic hot water transport and storage system.

44 (b) Be located and configured to allow sufficient solar access and  
45 exposure and to allow ready installation of solar water heating devices

1 without further expense or effort to reach, use or serve the domestic hot  
2 water system of the house or dwelling UNIT.

3 2. Electric vehicle recharge outlets. To qualify for the credit, the  
4 outlet must be connected to the utility system by a dedicated line that:

5 (a) Is capable of operating at normal secondary voltages.

6 (b) Meets applicable local building safety codes.

7 (c) Is commensurate and consistent with electric vehicle recharging  
8 needs and methods.

9 B. The credit shall not exceed seventy-five dollars for each  
10 installation for each separate house or dwelling unit.

11 C. The taxpayer may elect to transfer a credit under this section to a  
12 purchaser or transferee of the house or dwelling unit. If the taxpayer  
13 elects to transfer the credit, the taxpayer shall deliver to the purchaser or  
14 transferee a written statement that the taxpayer has elected not to claim the  
15 credit and that the purchaser or transferee may claim the credit, subject to  
16 the conditions and limitations prescribed by this section.

17 D. If the allowable credit exceeds the taxes otherwise due under this  
18 title on the claimant's income or if there are no taxes due under this title,  
19 the amount of the credit not used to offset taxes under this title may be  
20 carried forward to the next five consecutive taxable years as a credit  
21 against subsequent years' income tax liability.

22 E. Co-owners of a business, including corporate partners in a  
23 partnership, may each claim only the pro rata share of the credit allowed  
24 under this section based on the ownership interest. The total of the credits  
25 allowed all such owners may not exceed the amount that would have been  
26 allowed a sole owner.

27 F. The credit allowed under this section is in lieu of any expenses  
28 taken for installing solar stub outs or electric vehicle recharge outlets ~~to~~  
29 ~~reach~~ IN COMPUTING Arizona taxable income.

30 Sec. 39. Section 43-1178, Arizona Revised Statutes, is amended to  
31 read:

32 43-1178. Credit for taxes with respect to coal consumed in  
33 generating electrical power

34 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
35 allowed against the taxes imposed by this title for a taxpayer that purchases  
36 coal consumed in generating electrical power in this state. The credit is  
37 equal to thirty per cent of the amount paid by the seller or purchaser as  
38 transaction privilege or use tax with respect to the coal sold to the  
39 taxpayer.

40 B. Co-owners of a business, including corporate partners in a  
41 partnership, may claim only the pro rata share of the credit allowed under  
42 this section based on the ownership interest. The total of the credits  
43 allowed all of the owners of the business may not exceed the amount that  
44 would have been allowed for a sole owner of the business.

1 C. If the allowable tax credit exceeds the taxes otherwise due under  
2 this title on the claimant's income, or if there are no taxes due under this  
3 title, the amount of the claim not used as an offset against income taxes may  
4 be carried forward to the next five consecutive taxable years as a credit  
5 against subsequent years' income tax liability.

6 D. The credit under this section is in lieu of any allowance for state  
7 tax purposes for a deduction for the expenses allowed by the internal revenue  
8 code.

9 Sec. 40. Section 43-1181, Arizona Revised Statutes, is amended to  
10 read:

11 43-1181. Credit of donation of school site

12 A. FOR TAXABLE YEARS ENDING BEFORE JANUARY 1, 2018, a credit is  
13 allowed against the taxes imposed by this title in the amount of thirty per  
14 cent of the value of real property and improvements donated by the taxpayer  
15 to a school district or a charter school for use as a school or as a site for  
16 the construction of a school.

17 B. To qualify for the credit:

18 1. The real property and improvements must be located in this state.

19 2. The real property and improvements must be conveyed unencumbered  
20 and in fee simple except that:

21 (a) The conveyance must include as a deed restriction and protective  
22 covenant running with title to the land the requirement that as long as the  
23 donee holds title to the property the property shall only be used as a school  
24 or as a site for the construction of a school, subject to subsection I or J  
25 of this section.

26 (b) In the case of a donation to a charter school, the donor shall  
27 record a lien on the property as provided by subsection J, paragraph 3 of  
28 this section.

29 3. The conveyance shall not violate section 15-341, subsection D or  
30 section 15-183, subsection U.

31 C. For the purposes of this section, the value of the donated property  
32 is the property's fair market value as determined in an appraisal as defined  
33 in section 32-3601 that is conducted by an independent party and that is paid  
34 for by the donee.

35 D. If the property is donated by co-owners, including corporate  
36 partners in a partnership, each donor may claim only the pro rata share of  
37 the allowable credit under this section based on the ownership interest. The  
38 total of the credits allowed all co-owner donors may not exceed the allowable  
39 credit.

40 E. If the allowable tax credit exceeds the taxes otherwise due under  
41 this title on the claimant's income, or if there are no taxes due under this  
42 title, the taxpayer may carry the amount of the claim not used to offset the  
43 taxes under this title forward for not more than five consecutive taxable  
44 years' income tax liability.

1 F. The credit under this section is in lieu of any deduction pursuant  
2 to section 170 of the internal revenue code taken for state tax purposes.

3 G. On written request by the donee, the donor shall disclose in  
4 writing to the donee the amount of the credit allowed pursuant to this  
5 section with respect to the property received by the donee.

6 H. A school district or charter school may refuse the donation of any  
7 property for purposes of this section.

8 I. If the donee is a school district:

9 1. The district shall notify the school facilities board established  
10 by section 15-2001 and furnish the board with any information the board  
11 requests regarding the donation. A school district shall not accept a  
12 donation pursuant to this section unless the school facilities board has  
13 reviewed the proposed donation and has issued a written determination that  
14 the real property and improvements are suitable as a school site or as a  
15 school. The school facilities board shall issue a determination that the  
16 real property and improvements are not suitable as a school site or as a  
17 school if the expenses that would be necessary to make the property suitable  
18 as a school site or as a school exceed the value of the proposed donation.

19 2. The district may sell any donated property pursuant to section  
20 15-342, but the proceeds from the sale shall only be used for capital  
21 projects. The school facilities board shall withhold an amount that  
22 corresponds to the amount of the proceeds from any monies that would  
23 otherwise be due the school district from the school facilities board  
24 pursuant to section 15-2041.

25 J. If the donee is a charter school:

26 1. The charter school shall:

27 (a) Immediately notify the sponsor of the charter school by certified  
28 mail and shall furnish the sponsor with any information requested by the  
29 sponsor regarding the donation during the ten year period after the  
30 conveyance is recorded.

31 (b) Notify the sponsor by certified mail, and the sponsor shall notify  
32 the state treasurer, in the event of the charter school's financial failure  
33 or if the charter school:

34 (i) Fails to establish a charter school on the property within  
35 forty-eight months after the conveyance is recorded.

36 (ii) Fails to provide instruction to pupils on the property within  
37 forty-eight months after the conveyance is recorded.

38 (iii) Establishes a charter school on the property but subsequently  
39 ceases to operate the charter school on the property for twenty-four  
40 consecutive months or fails to provide instruction to pupils on the property  
41 for twenty-four consecutive months.

42 2. The charter school, or a successor in interest, shall pay to the  
43 state treasurer the amount of the credit allowed under this section, or if  
44 that amount is unknown, the amount of the allowable credit under this  
45 section, if any of the circumstances listed in paragraph 1, subdivision (b)

1 of this subsection ~~occur~~ OCCURS. If the amount is not paid within one year  
2 after the treasurer receives notice under paragraph 1, subdivision (b) of  
3 this subsection, a penalty and interest shall be added, determined pursuant  
4 to title 42, chapter 1, article 3.

5 3. A tax credit under this section constitutes a lien on the property,  
6 which the donor must record along with the title to the property to qualify  
7 for the credit. The amount of the lien is the amount of the allowable credit  
8 under this section, adjusted according to the average change in the GDP price  
9 deflator, as defined in section 41-563, for each calendar year since the  
10 donation, but not exceeding twelve and one-half per cent more than the  
11 allowable credit. The lien is subordinate to any liens securing the  
12 financing of the school construction. The lien is extinguished on the  
13 earliest of the following:

14 (a) Ten years after the lien is recorded. After that date, the  
15 charter school, or a successor in interest, may request the state treasurer  
16 to release the lien.

17 (b) On payment to the state treasurer by the donee charter school, or  
18 by a successor in interest, of the amount of the allowable credit under this  
19 section, either voluntarily or as required by paragraph 2 of this subsection.  
20 After the required amount is paid, the charter school or successor in  
21 interest may request the state treasurer to release the lien.

22 (c) On conveyance of fee simple title to the property to a school  
23 district.

24 (d) On enforcement and satisfaction of the lien pursuant to paragraph  
25 4 of this subsection.

26 4. The state treasurer shall enforce the lien by foreclosure within  
27 one year after receiving notice of any of the circumstances described in  
28 paragraph 1, subdivision (b) of this subsection.

29 5. Subject to paragraphs 3 and 4 of this subsection, the charter  
30 school may sell any donated property.

31 Sec. 41. Effective date

32 A. Section 43-1074.01, Arizona Revised Statutes, as added by Laws  
33 2008, chapter 290, section 4 and amended by this act, is effective for  
34 taxable years beginning from and after December 31, 2017.

35 B. Section 43-1168, Arizona Revised Statutes, as added by Laws 2008,  
36 chapter 290, section 7 and amended by this act, is effective for taxable  
37 years beginning from and after December 31, 2017.

38 Sec. 42. Requirements for enactment; two-thirds vote

39 Pursuant to article IX, section 22, Constitution of Arizona, this act  
40 is effective only on the affirmative vote of at least two-thirds of the  
41 members of each house of the legislature and is effective immediately on the  
42 signature of the governor or, if the governor vetoes this act, on the  
43 subsequent affirmative vote of at least three-fourths of the members of each  
44 house of the legislature.