

REFERENCE TITLE: tax deductions; exemptions; credits; repeal

State of Arizona  
House of Representatives  
Fiftieth Legislature  
Second Regular Session  
2012

## **HCR 2057**

Introduced by  
Representatives Chabin, Farley

A CONCURRENT RESOLUTION

ENACTING AND ORDERING THE SUBMISSION TO THE PEOPLE OF A MEASURE RELATING TO  
TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it resolved by the House of Representatives of the State of Arizona, the  
2 Senate concurring:

3 1. Under the power of the referendum, as vested in the Legislature,  
4 the following measure, relating to taxation, is enacted to become valid as a  
5 law if approved by the voters and on proclamation of the Governor:

6 AN ACT

7 AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED  
8 STATUTES, BY ADDING SECTION 42-5039; AMENDING SECTIONS 42-5061,  
9 42-5062, 42-5063, 42-5064, 42-5065, 42-5066, 42-5067, 42-5069,  
10 42-5070, 42-5071, 42-5072, 42-5073, 42-5074, 42-5075, 42-5102,  
11 42-5159, 43-223, 43-1071, 43-1072, 43-1072.01, 43-1073 AND  
12 43-1074, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1074.01,  
13 ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2011, SECOND  
14 SPECIAL SESSION, CHAPTER 1, SECTIONS 96 AND 97; AMENDING  
15 SECTIONS 43-1077, 43-1078, 43-1079, 43-1079.01, 43-1081,  
16 43-1081.01, 43-1083, 43-1083.02, 43-1084, 43-1087, 43-1088,  
17 43-1089, 43-1089.01, 43-1089.02, 43-1090, 43-1161, 43-1164.03,  
18 43-1165, 43-1166, 43-1167 AND 43-1167.01, ARIZONA REVISED  
19 STATUTES; AMENDING SECTION 43-1168, ARIZONA REVISED STATUTES, AS  
20 AMENDED BY LAWS 2011, SECOND SPECIAL SESSION, CHAPTER 1,  
21 SECTIONS 113 AND 114; AMENDING SECTIONS 43-1170, 43-1170.01,  
22 43-1175, 43-1176, 43-1178, 43-1181, 43-1183 AND 43-1184, ARIZONA  
23 REVISED STATUTES; RELATING TO TAXATION.

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

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

27 42-5039. Requirements for new transaction privilege or  
28 use tax deductions and exemptions established  
29 by the legislature

30 ANY NEW TRANSACTION PRIVILEGE OR USE TAX DEDUCTION OR  
31 EXEMPTION THAT IS ESTABLISHED BY THE LEGISLATURE UNDER THIS  
32 CHAPTER SHALL INCLUDE IN ITS ENABLING LEGISLATION A SPECIFIC  
33 REPEAL DATE FOR THE DEDUCTION OR EXEMPTION. THE SPECIFIC REPEAL  
34 DATE SHALL BE FROM AND AFTER DECEMBER 31 OF THE SEVENTH FULL  
35 CALENDAR YEAR FOLLOWING THE DATE THE DEDUCTION OR EXEMPTION IS  
36 ENACTED.

37 Sec. 2. Section 42-5061, Arizona Revised Statutes, is  
38 amended to read:

39 42-5061. Retail classification; definitions

40 A. The retail classification is comprised of the business  
41 of selling tangible personal property at retail. The tax base  
42 for the retail classification is the gross proceeds of sales or  
43 gross income derived from the business. The tax imposed on the  
44 retail classification does not apply to the gross proceeds of  
45 sales or gross income from:

- 1           1. Professional or personal service occupations or  
2 businesses which involve sales or transfers of tangible personal  
3 property only as inconsequential elements.
- 4           2. Services rendered in addition to selling tangible  
5 personal property at retail.
- 6           3. Sales of warranty or service contracts. The storage,  
7 use or consumption of tangible personal property provided under  
8 the conditions of such contracts is subject to tax under section  
9 42-5156.
- 10          4. Sales of tangible personal property by any nonprofit  
11 organization organized and operated exclusively for charitable  
12 purposes and recognized by the United States internal revenue  
13 service under section 501(c)(3) of the internal revenue code.
- 14          5. Sales to persons engaged in business classified under  
15 the restaurant classification of articles used by human beings  
16 for food, drink or condiment, whether simple, mixed or  
17 compounded.
- 18          6. Business activity which is properly included in any  
19 other business classification which is taxable under this  
20 article.
- 21          7. The sale of stocks and bonds.
- 22          8. Drugs and medical oxygen, including delivery hose,  
23 mask or tent, regulator and tank, on the prescription of a  
24 member of the medical, dental or veterinarian profession who is  
25 licensed by law to administer such substances.
- 26          9. Prosthetic appliances as defined in section 23-501  
27 prescribed or recommended by a health professional who is  
28 licensed pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16,  
29 17 or 29.
- 30          10. Insulin, insulin syringes and glucose test strips.
- 31          11. Prescription eyeglasses or contact lenses.
- 32          12. Hearing aids as defined in section 36-1901.
- 33          13. Durable medical equipment which has a centers for  
34 medicare and medicaid services common procedure code, is  
35 designated reimbursable by medicare, is prescribed by a person  
36 who is licensed under title 32, chapter 7, 8, 13, 14, 15, 17 or  
37 29, can withstand repeated use, is primarily and customarily  
38 used to serve a medical purpose, is generally not useful to a  
39 person in the absence of illness or injury and is appropriate  
40 for use in the home.
- 41          14. Sales to nonresidents of this state for use outside  
42 this state if the vendor ships or delivers the tangible personal  
43 property out of this state.
- 44          15. Food, as provided in and subject to the conditions of  
45 article 3 of this chapter and section 42-5074.

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

7           17. Textbooks by any bookstore that are required by any  
8 state university or community college.

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

14           19. Articles of food, drink or condiment and accessory  
15 tangible personal property to a school district or charter  
16 school if such articles and accessory tangible personal property  
17 are to be prepared and served to persons for consumption on the  
18 premises of a public school within the district or on the  
19 premises of the charter school during school hours.

20           20. Lottery tickets or shares pursuant to title 5, chapter  
21 5, article 1.

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

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

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

34           22. Motor vehicle fuel and use fuel that are subject to a  
35 tax imposed under title 28, chapter 16, article 1, sales of use  
36 fuel to a holder of a valid single trip use fuel tax permit  
37 issued under section 28-5739, sales of aviation fuel that are  
38 subject to the tax imposed under section 28-8344 and sales of  
39 jet fuel that are subject to the tax imposed under article 8 of  
40 this chapter.

41           23. Tangible personal property sold to a person engaged in  
42 the business of leasing or renting such property under the  
43 personal property rental classification if such property is to  
44 be leased or rented by such person.

1           24. Tangible personal property sold in interstate or  
2 foreign commerce if prohibited from being so taxed by the  
3 Constitution of the United States or the constitution of this  
4 state.

5           25. Tangible personal property sold to:

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

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

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

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

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

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

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

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

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

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

1 (c) Incorporated or fabricated by the person into any  
2 lake facility development in a commercial enhancement reuse  
3 district under conditions prescribed for the deduction allowed  
4 by section 42-5075, subsection B, paragraph 8.

5 28. The sale of a motor vehicle to:

6 (a) A nonresident of this state if the purchaser's state  
7 of residence does not allow a corresponding use tax exemption to  
8 the tax imposed by article 1 of this chapter and if the  
9 nonresident has secured a special ninety day nonresident  
10 registration permit for the vehicle as prescribed by sections  
11 28-2154 and 28-2154.01.

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

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

21 30. Sales of tangible personal property by a nonprofit  
22 organization that is exempt from taxation under section  
23 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code  
24 if the organization is associated with a major league baseball  
25 team or a national touring professional golfing association and  
26 no part of the organization's net earnings inures to the benefit  
27 of any private shareholder or individual.

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

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

41 33. Sales of seeds, seedlings, roots, bulbs, cuttings and  
42 other propagative material to persons who use those items to  
43 commercially produce agricultural, horticultural, viticultural  
44 or floricultural crops in this state.

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

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

10          36. Sales of natural gas or liquefied petroleum gas used  
11 to propel a motor vehicle.

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

15          38. Coal, petroleum, coke, natural gas, virgin fuel oil  
16 and electricity sold to a qualified environmental technology  
17 manufacturer, producer or processor as defined in section  
18 41-1514.02 and directly used or consumed in the generation or  
19 provision of on-site power or energy solely for environmental  
20 technology manufacturing, producing or processing or  
21 environmental protection. This paragraph shall apply for twenty  
22 full consecutive calendar or fiscal years from the date the  
23 first paper manufacturing machine is placed in service. In the  
24 case of an environmental technology manufacturer, producer or  
25 processor who does not manufacture paper, the time period shall  
26 begin with the date the first manufacturing, processing or  
27 production equipment is placed in service.

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

43          40. Through December 31, 1994, personal property  
44 liquidation transactions, conducted by a personal property  
45 liquidator. From and after December 31, 1994, personal property

1 liquidation transactions shall be taxable under this section  
2 provided that nothing in this subsection shall be construed to  
3 authorize the taxation of casual activities or transactions  
4 under this chapter. For the purposes of this paragraph:

5 (a) "Personal property liquidation transaction" means a  
6 sale of personal property made by a personal property liquidator  
7 acting solely on behalf of the owner of the personal property  
8 sold at the dwelling of the owner or upon the death of any  
9 owner, on behalf of the surviving spouse, if any, any devisee or  
10 heir or the personal representative of the estate of the  
11 deceased, if one has been appointed.

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

15 41. Sales of food, drink and condiment for consumption  
16 within the premises of any prison, jail or other institution  
17 under the jurisdiction of the state department of corrections,  
18 the department of public safety, the department of juvenile  
19 corrections or a county sheriff.

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

25 43. Livestock and poultry feed, salts, vitamins and other  
26 additives for livestock or poultry consumption that are sold to  
27 persons who are engaged in producing livestock, poultry, or  
28 livestock or poultry products or who are engaged in feeding  
29 livestock or poultry commercially. For the purposes of this  
30 paragraph, "poultry" includes ratites.

31 44. Sales of implants used as growth promotants and  
32 injectable medicines, not already exempt under paragraph 8 of  
33 this subsection, for livestock or poultry owned by or in  
34 possession of persons who are engaged in producing livestock,  
35 poultry, or livestock or poultry products or who are engaged in  
36 feeding livestock or poultry commercially. For the purposes of  
37 this paragraph, "poultry" includes ratites.

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

42 46. Tangible personal property sold to a person engaged in  
43 business and subject to tax under the transient lodging  
44 classification if the tangible personal property is a personal  
45 hygiene item or articles used by human beings for food, drink or

1           condiment, except alcoholic beverages, which are furnished  
2 without additional charge to and intended to be consumed by the  
3 transient during the transient's occupancy.

4           47. Sales of alternative fuel, as defined in section  
5 1-215, to a used oil fuel burner who has received a permit to  
6 burn used oil or used oil fuel under section 49-426 or 49-480.

7           48. Sales of materials that are purchased by or for  
8 publicly funded libraries including school district libraries,  
9 charter school libraries, community college libraries, state  
10 university libraries or federal, state, county or municipal  
11 libraries for use by the public as follows:

12           (a) Printed or photographic materials, beginning August  
13 7, 1985.

14           (b) Electronic or digital media materials, beginning July  
15 17, 1994.

16           49. Tangible personal property sold to a commercial  
17 airline and consisting of food, beverages and condiments and  
18 accessories used for serving the food and beverages, if those  
19 items are to be provided without additional charge to passengers  
20 for consumption in flight. For the purposes of this paragraph,  
21 "commercial airline" means a person holding a federal  
22 certificate of public convenience and necessity or foreign air  
23 carrier permit for air transportation to transport persons,  
24 property or United States mail in intrastate, interstate or  
25 foreign commerce.

26           50. Sales of alternative fuel vehicles if the vehicle was  
27 manufactured as a diesel fuel vehicle and converted to operate  
28 on alternative fuel and equipment that is installed in a  
29 conventional diesel fuel motor vehicle to convert the vehicle to  
30 operate on an alternative fuel, as defined in section 1-215.

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

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

38           53. Sales of tangible personal property by a nonprofit  
39 organization that is exempt from taxation under section  
40 501(c)(6) of the internal revenue code if the organization  
41 produces, organizes or promotes cultural or civic related  
42 festivals or events and no part of the organization's net  
43 earnings inures to the benefit of any private shareholder or  
44 individual.

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

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

8           (a) "Application services" means software applications  
9 provided remotely using hypertext transfer protocol or another  
10 network protocol.

11           (b) "Curriculum design or enhancement" means planning,  
12 implementing or reporting on courses of study, lessons,  
13 assignments or other learning activities.

14           B. In addition to the deductions from the tax base  
15 prescribed by subsection A of this section, the gross proceeds  
16 of sales or gross income derived from sales of the following  
17 categories of tangible personal property shall be deducted from  
18 the tax base:

19           1. Machinery, or equipment, used directly in  
20 manufacturing, processing, fabricating, job printing, refining  
21 or metallurgical operations. The terms "manufacturing",  
22 "processing", "fabricating", "job printing", "refining" and  
23 "metallurgical" as used in this paragraph refer to and include  
24 those operations commonly understood within their ordinary  
25 meaning. "Metallurgical operations" includes leaching, milling,  
26 precipitating, smelting and refining.

27           2. Mining machinery, or equipment, used directly in the  
28 process of extracting ores or minerals from the earth for  
29 commercial purposes, including equipment required to prepare the  
30 materials for extraction and handling, loading or transporting  
31 such extracted material to the surface. "Mining" includes  
32 underground, surface and open pit operations for extracting ores  
33 and minerals.

34           3. Tangible personal property sold to persons engaged in  
35 business classified under the telecommunications classification  
36 and consisting of central office switching equipment,  
37 switchboards, private branch exchange equipment, microwave radio  
38 equipment and carrier equipment including optical fiber, coaxial  
39 cable and other transmission media which are components of  
40 carrier systems.

41           4. Machinery, equipment or transmission lines used  
42 directly in producing or transmitting electrical power, but not  
43 including distribution. Transformers and control equipment used  
44 at transmission substation sites constitute equipment used in  
45 producing or transmitting electrical power.

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

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

10          7. Aircraft, navigational and communication instruments  
11 and other accessories and related equipment sold to:

12           (a) A person holding a federal certificate of public  
13 convenience and necessity, a supplemental air carrier  
14 certificate under federal aviation regulations (14 Code of  
15 Federal Regulations part 121) or a foreign air carrier permit  
16 for air transportation for use as or in conjunction with or  
17 becoming a part of aircraft to be used to transport persons,  
18 property or United States mail in intrastate, interstate or  
19 foreign commerce.

20           (b) Any foreign government.

21           (c) Persons who are not residents of this state and who  
22 will not use such property in this state other than in removing  
23 such property from this state. This subdivision also applies to  
24 corporations that are not incorporated in this state, regardless  
25 of maintaining a place of business in this state, if the  
26 principal corporate office is located outside this state and the  
27 property will not be used in this state other than in removing  
28 the property from this state.

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

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

36          10. Machinery or equipment used directly to drill for oil  
37 or gas or used directly in the process of extracting oil or gas  
38 from the earth for commercial purposes.

39          11. Buses or other urban mass transit vehicles which are  
40 used directly to transport persons or property for hire or  
41 pursuant to a governmentally adopted and controlled urban mass  
42 transportation program and which are sold to bus companies  
43 holding a federal certificate of convenience and necessity or  
44 operated by any city, town or other governmental entity or by  
45 any person contracting with such governmental entity as part of

1 a governmentally adopted and controlled program to provide urban  
2 mass transportation.

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

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

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

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

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

34 15. Machinery and equipment that are purchased by or on  
35 behalf of the owners of a soundstage complex and primarily used  
36 for motion picture, multimedia or interactive video production  
37 in the complex. This paragraph applies only if the initial  
38 construction of the soundstage complex begins after June 30,  
39 1996 and before January 1, 2002 and the machinery and equipment  
40 are purchased before the expiration of five years after the  
41 start of initial construction. For the purposes of this  
42 paragraph:

43 (a) "Motion picture, multimedia or interactive video  
44 production" includes products for theatrical and television  
45 release, educational presentations, electronic retailing,

1 documentaries, music videos, industrial films, CD-ROM, video  
2 game production, commercial advertising and television episode  
3 production and other genres that are introduced through  
4 developing technology.

5 (b) "Soundstage complex" means a facility of multiple  
6 stages including production offices, construction shops and  
7 related areas, prop and costume shops, storage areas, parking  
8 for production vehicles and areas that are leased to businesses  
9 that complement the production needs and orientation of the  
10 overall facility.

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

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

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

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

25 (ii) Over two-thirds of the transmissions, measured in  
26 megabytes, transmitted by or on behalf of those direct broadcast  
27 television or data transmission services during the test period  
28 were transmitted by the facility to or on behalf of those  
29 services.

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

36 17. Clean rooms that are used for manufacturing,  
37 processing, fabrication or research and development, as defined  
38 in paragraph 14 of this subsection, of semiconductor products.  
39 For the purposes of this paragraph, "clean room" means all  
40 property that comprises or creates an environment where  
41 humidity, temperature, particulate matter and contamination are  
42 precisely controlled within specified parameters, without regard  
43 to whether the property is actually contained within that  
44 environment or whether any of the property is affixed to or  
45 incorporated into real property. Clean room:

1 (a) Includes the integrated systems, fixtures, piping,  
2 movable partitions, lighting and all property that is necessary  
3 or adapted to reduce contamination or to control airflow,  
4 temperature, humidity, chemical purity or other environmental  
5 conditions or manufacturing tolerances, as well as the  
6 production machinery and equipment operating in conjunction with  
7 the clean room environment.

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

11 18. Machinery and equipment used directly in the feeding  
12 of poultry, the environmental control of housing for poultry,  
13 the movement of eggs within a production and packaging facility  
14 or the sorting or cooling of eggs. This exemption does not  
15 apply to vehicles used for transporting eggs.

16 19. Machinery or equipment, including related structural  
17 components, that is employed in connection with manufacturing,  
18 processing, fabricating, job printing, refining, mining, natural  
19 gas pipelines, metallurgical operations, telecommunications,  
20 producing or transmitting electricity or research and  
21 development and that is used directly to meet or exceed rules or  
22 regulations adopted by the federal energy regulatory commission,  
23 the United States environmental protection agency, the United  
24 States nuclear regulatory commission, the Arizona department of  
25 environmental quality or a political subdivision of this state  
26 to prevent, monitor, control or reduce land, water or air  
27 pollution.

28 20. Machinery and equipment that are sold to a person  
29 engaged in the commercial production of livestock, livestock  
30 products or agricultural, horticultural, viticultural or  
31 floricultural crops or products in this state and that are used  
32 directly and primarily to prevent, monitor, control or reduce  
33 air, water or land pollution.

34 21. Machinery or equipment that enables a television  
35 station to originate and broadcast or to receive and broadcast  
36 digital television signals and that was purchased to facilitate  
37 compliance with the telecommunications act of 1996  
38 (P.L. 104-104; 110 Stat. 56; 47 United States Code section 336)  
39 and the federal communications commission order issued April 21,  
40 1997 (47 Code of Federal Regulations part 73). This paragraph  
41 does not exempt any of the following:

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

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

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

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

14 23. Machinery, equipment and other tangible personal  
15 property used directly in motion picture production by a motion  
16 picture production company. To qualify for this deduction, at  
17 the time of purchase, the motion picture production company must  
18 present to the retailer its certificate that is issued pursuant  
19 to section 42-5009, subsection H and that establishes its  
20 qualification for the deduction.

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

23 1. Expendable materials. For the purposes of this  
24 paragraph, expendable materials do not include any of the  
25 categories of tangible personal property specified in subsection  
26 B of this section regardless of the cost or useful life of that  
27 property.

28 2. Janitorial equipment and hand tools.

29 3. Office equipment, furniture and supplies.

30 4. Tangible personal property used in selling or  
31 distributing activities, other than the telecommunications  
32 transmissions described in subsection B, paragraph 16 of this  
33 section.

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

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

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

42 D. In addition to the deductions from the tax base  
43 prescribed by subsection A of this section, there shall be  
44 deducted from the tax base the gross proceeds of sales or gross  
45 income derived from sales of machinery, equipment, materials and

1 other tangible personal property used directly and predominantly  
2 to construct a qualified environmental technology manufacturing,  
3 producing or processing facility as described in section  
4 41-1514.02. This subsection applies for ten full consecutive  
5 calendar or fiscal years after the start of initial  
6 construction.

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

11 F. In computing the tax base, gross proceeds of sales or  
12 gross income from the sale of use fuel, as defined in section  
13 28-5601, does not include any amount attributable to federal  
14 excise taxes imposed by 26 United States Code section 4091.

15 G. If a person is engaged in an occupation or business to  
16 which subsection A of this section applies, the person's books  
17 shall be kept so as to show separately the gross proceeds of  
18 sales of tangible personal property and the gross income from  
19 sales of services, and if not so kept the tax shall be imposed  
20 on the total of the person's gross proceeds of sales of tangible  
21 personal property and gross income from services.

22 H. If a person is engaged in the business of selling  
23 tangible personal property at both wholesale and retail, the tax  
24 under this section applies only to the gross proceeds of the  
25 sales made other than at wholesale if the person's books are  
26 kept so as to show separately the gross proceeds of sales of  
27 each class, and if the books are not so kept, the tax under this  
28 section applies to the gross proceeds of every sale so made.

29 I. A person who engages in manufacturing, baling,  
30 crating, boxing, barreling, canning, bottling, sacking,  
31 preserving, processing or otherwise preparing for sale or  
32 commercial use any livestock, agricultural or horticultural  
33 product or any other product, article, substance or commodity  
34 and who sells the product of such business at retail in this  
35 state is deemed, as to such sales, to be engaged in business  
36 classified under the retail classification. This subsection  
37 does not apply to businesses classified under the:

- 38 1. Transporting classification.
- 39 2. Utilities classification.
- 40 3. Telecommunications classification.
- 41 4. Pipeline classification.
- 42 5. Private car line classification.
- 43 6. Publication classification.
- 44 7. Job printing classification.
- 45 8. Prime contracting classification.

1           9. Owner builder sales classification.  
2           10. Restaurant classification.  
3           J. The gross proceeds of sales or gross income derived  
4 from the following shall be deducted from the tax base for the  
5 retail classification:  
6           1. Sales made directly to the United States government or  
7 its departments or agencies by a manufacturer, modifier,  
8 assembler or repairer.  
9           2. Sales made directly to a manufacturer, modifier,  
10 assembler or repairer if such sales are of any ingredient or  
11 component part of products sold directly to the United States  
12 government or its departments or agencies by the manufacturer,  
13 modifier, assembler or repairer.  
14           3. Overhead materials or other tangible personal property  
15 that is used in performing a contract between the United States  
16 government and a manufacturer, modifier, assembler or repairer,  
17 including property used in performing a subcontract with a  
18 government contractor who is a manufacturer, modifier, assembler  
19 or repairer, to which title passes to the government under the  
20 terms of the contract or subcontract.  
21           4. Sales of overhead materials or other tangible personal  
22 property to a manufacturer, modifier, assembler or repairer if  
23 the gross proceeds of sales or gross income derived from the  
24 property by the manufacturer, modifier, assembler or repairer  
25 will be exempt under paragraph 3 of this subsection.  
26           K. There shall be deducted from the tax base fifty per  
27 cent of the gross proceeds or gross income from any sale of  
28 tangible personal property made directly to the United States  
29 government or its departments or agencies, which is not deducted  
30 under subsection J of this section.  
31           L. The department shall require every person claiming a  
32 deduction provided by subsection J or K of this section to file  
33 on forms prescribed by the department at such times as the  
34 department directs a sworn statement disclosing the name of the  
35 purchaser and the exact amount of sales on which the exclusion  
36 or deduction is claimed.  
37           M. In computing the tax base, gross proceeds of sales or  
38 gross income does not include:  
39           1. A manufacturer's cash rebate on the sales price of a  
40 motor vehicle if the buyer assigns the buyer's right in the  
41 rebate to the retailer.  
42           2. The waste tire disposal fee imposed pursuant to  
43 section 44-1302.  
44           N. There shall be deducted from the tax base the amount  
45 received from sales of solar energy devices. The retailer shall

1 register with the department as a solar energy retailer. By  
2 registering, the retailer acknowledges that it will make its  
3 books and records relating to sales of solar energy devices  
4 available to the department for examination.

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

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

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

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

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

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

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

1 of this chapter and related to the tangible personal property  
2 purchased. The amount shall be treated as transaction privilege  
3 tax to the purchaser and as tax revenues collected from the  
4 seller to designate the distribution base pursuant to section  
5 42-5029.

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

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

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

16 U. In computing the tax base for the sale of a motor  
17 vehicle to a nonresident of this state, if the purchaser's state  
18 of residence allows a corresponding use tax exemption to the tax  
19 imposed by article 1 of this chapter and the rate of the tax in  
20 the purchaser's state of residence is lower than the rate  
21 prescribed in article 1 of this chapter or if the purchaser's  
22 state of residence does not impose an excise tax, and the  
23 nonresident has secured a special ninety day nonresident  
24 registration permit for the vehicle as prescribed by sections  
25 28-2154 and 28-2154.01, there shall be deducted from the tax  
26 base a portion of the gross proceeds or gross income from the  
27 sale so that the amount of transaction privilege tax that is  
28 paid in this state is equal to the excise tax that is imposed by  
29 the purchaser's state of residence on the nonexempt sale or use  
30 of the motor vehicle.

31 V. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION,  
32 THE ITEMS DESCRIBED IN SUBSECTIONS A AND B OF THIS SECTION SHALL  
33 NOT BE DEDUCTED OR EXEMPTED FROM THE TAX BASE FOR TAXABLE  
34 PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2019. THE  
35 LEGISLATURE, BY MAJORITY VOTE, MAY EXTEND THIS DATE FOR ANY  
36 DEDUCTION OR EXEMPTION ALLOWED BY THIS SECTION.

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

38 1. "Aircraft" includes:

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

43 (b) Tangible personal property that is permanently  
44 affixed or attached as a component part of an aircraft that is

1 owned or operated by a certificated or licensed carrier of  
2 persons or property.

3 2. "Other accessories and related equipment" includes  
4 aircraft accessories and equipment such as ground service  
5 equipment that physically contact aircraft at some point during  
6 the overall carrier operation.

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

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

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

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

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

25 4. "Overhead materials" means tangible personal property,  
26 the gross proceeds of sales or gross income derived from which  
27 would otherwise be included in the retail classification, and  
28 which are used or consumed in the performance of a contract, the  
29 cost of which is charged to an overhead expense account and  
30 allocated to various contracts based upon generally accepted  
31 accounting principles and consistent with government contract  
32 accounting standards.

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

35 6. "Subcontract" means an agreement between a contractor  
36 and any person who is not an employee of the contractor for  
37 furnishing of supplies or services that, in whole or in part,  
38 are necessary to the performance of one or more government  
39 contracts, or under which any portion of the contractor's  
40 obligation under one or more government contracts is performed,  
41 undertaken or assumed and that includes provisions causing title  
42 to overhead materials or other tangible personal property used  
43 in the performance of the subcontract to pass to the government  
44 or that includes provisions incorporating such title passing  
45 clauses in a government contract into the subcontract.

1           Sec. 3. Section 42-5062, Arizona Revised Statutes, is  
2 amended to read:

3           42-5062. Transporting classification

4           A. The transporting classification is comprised of the  
5 business of transporting for hire persons, freight or property  
6 by motor vehicle, railroads or aircraft from one point to  
7 another point in this state. The transporting classification  
8 does not include:

9           1. Transporting for hire persons, freight or property by  
10 motor carriers subject to a fee prescribed in title 28, chapter  
11 16, article 4 or by light motor vehicles subject to a fee under  
12 title 28, chapter 15, article 4.

13           2. The business of transporting for hire persons  
14 traveling in air commerce by aircraft if taxation of the  
15 business is preempted by federal law.

16           3. Ambulances or ambulance services provided under title  
17 48 or certified pursuant to title 36, chapter 21.1 or provided  
18 by a city or town in a county with a population of less than one  
19 hundred fifty thousand persons as determined in the most recent  
20 United States decennial census.

21           4. Public transportation program services for the  
22 dial-a-ride programs and special needs transportation services.

23           5. Transporting freight or property for hire by a  
24 railroad operating exclusively in this state if the  
25 transportation comprises a portion of a single shipment of  
26 freight or property, involving more than one railroad, either  
27 from a point in this state to a point outside this state or from  
28 a point outside this state to a point in this state. For the  
29 purposes of this paragraph, "a single shipment" means the  
30 transportation that begins at the point at which one of the  
31 railroads first takes possession of the freight or property and  
32 continues until the point at which one of the railroads  
33 relinquishes possession of the freight or property to a party  
34 other than one of the railroads.

35           6. Arranging transportation as a convenience or service  
36 to a person's customers if that person is not otherwise engaged  
37 in the business of transporting persons, freight or property for  
38 hire. This exception does not apply to businesses that dispatch  
39 vehicles pursuant to customer orders and send the billings and  
40 receive the payments associated with that activity, including  
41 when the transportation is performed by third party independent  
42 contractors. For the purposes of this paragraph, "arranging"  
43 includes billing for or collecting transportation charges from a  
44 person's customers on behalf of the persons providing the  
45 transportation.

1           B. The tax base for the transporting classification is  
2 the gross proceeds of sales or gross income derived from the  
3 business, except that the following shall be deducted from the  
4 tax base:

5           1. The gross proceeds of sales or gross income derived  
6 from transporting for hire persons, freight or property by a  
7 railroad pursuant to a contract with another railroad that is  
8 also considered to be engaged in the businesses of transporting  
9 persons, freight or property for hire if the other railroad is  
10 liable for the tax on gross proceeds of sales or gross income  
11 attributable to the transportation.

12           2. The gross proceeds of sales or gross income derived  
13 from business activity that is properly included in any other  
14 business classification under this article and that is taxable  
15 to the person engaged in that classification, but the gross  
16 proceeds of sales or gross income to be deducted shall not  
17 exceed the consideration paid to the person conducting the  
18 activity.

19           3. The gross proceeds of sales or gross income derived  
20 from a business activity that is arranged by the person who is  
21 subject to tax under this section and that is not taxable to the  
22 person conducting the activity due to an exclusion, exemption or  
23 deduction under this section or section 42-5073, but the gross  
24 proceeds of sales or gross income to be deducted shall not  
25 exceed the consideration paid to the person conducting the  
26 activity.

27           4. The gross proceeds of sales or gross income derived  
28 from business activity that is arranged by a person who is  
29 subject to tax under this section and that is taxable to another  
30 person under this section who conducts the activity, but the  
31 gross proceeds of sales or gross income to be deducted shall not  
32 exceed the consideration paid to the person conducting the  
33 activity.

34           5. The gross proceeds of sales or gross income derived  
35 from transporting fertilizer by a railroad from a point in this  
36 state to another point in this state.

37           C. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION,  
38 THE ITEMS DESCRIBED IN SUBSECTIONS A AND B OF THIS SECTION SHALL  
39 NOT BE DEDUCTED OR EXEMPTED FROM THE TAX BASE FOR TAXABLE  
40 PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2019. THE  
41 LEGISLATURE, BY MAJORITY VOTE, MAY EXTEND THIS DATE FOR ANY  
42 DEDUCTION OR EXEMPTION ALLOWED BY THIS SECTION.

1           Sec. 4. Section 42-5063, Arizona Revised Statutes, is  
2 amended to read:

3           42-5063. Utilities classification; definitions

4           A. The utilities classification is comprised of the  
5 business of:

6           1. Producing and furnishing or furnishing to consumers  
7 natural or artificial gas and water.

8           2. Providing to retail electric customers ancillary  
9 services, electric distribution services, electric generation  
10 services, electric transmission services and other services  
11 related to providing electricity.

12           B. The utilities classification does not include:

13           1. Sales of ancillary services, electric distribution  
14 services, electric generation services, electric transmission  
15 services and other services related to providing electricity,  
16 gas or water to a person who resells the services.

17           2. Sales of natural gas or liquefied petroleum gas used  
18 to propel a motor vehicle.

19           3. Sales of alternative fuel, as defined in section  
20 1-215, to a used oil fuel burner who has received a permit to  
21 burn used oil or used oil fuel under section 49-426 or 49-480.

22           4. Sales of ancillary services, electric distribution  
23 services, electric generation services, electric transmission  
24 services and other services that are related to providing  
25 electricity to a retail electric customer who is located outside  
26 this state for use outside this state if the electricity is  
27 delivered to a point of sale outside this state.

28           C. The tax base for the utilities classification is the  
29 gross proceeds of sales or gross income derived from the  
30 business, but the following shall be deducted from the tax base:

31           1. Revenues received by a municipally owned utility in  
32 the form of fees charged to persons constructing residential,  
33 commercial or industrial developments or connecting residential,  
34 commercial or industrial developments to a municipal utility  
35 system or systems if the fees are segregated and used only for  
36 capital expansion, system enlargement or debt service of the  
37 utility system or systems.

38           2. Revenues received by any person or persons owning a  
39 utility system in the form of reimbursement or contribution  
40 compensation for property and equipment installed to provide  
41 utility access to, on or across the land of an actual utility  
42 consumer if the property and equipment become the property of  
43 the utility. This deduction shall not exceed the value of such  
44 property and equipment.

1           3. Gross proceeds of sales or gross income derived from  
2 sales to:

3           (a) Qualifying hospitals as defined in section 42-5001.

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

8           4. The portion of gross proceeds of sales or gross income  
9 that is derived from sales to a qualified environmental  
10 technology manufacturer, producer or processor as defined in  
11 section 41-1514.02 of a utility product and that is used  
12 directly in environmental technology manufacturing, producing or  
13 processing. This paragraph shall apply for twenty full  
14 consecutive calendar or fiscal years from the date the first  
15 paper manufacturing machine is placed in service. In the case  
16 of a qualified environmental technology manufacturer, producer  
17 or processor who does not manufacture paper, the time period  
18 shall begin with the date the first manufacturing, processing or  
19 production equipment is placed in service.

20           D. NOTWITHSTANDING SUBSECTIONS B AND C OF THIS SECTION,  
21 THE ITEMS DESCRIBED IN SUBSECTIONS B AND C OF THIS SECTION SHALL  
22 NOT BE DEDUCTED OR EXEMPTED FROM THE TAX BASE FOR TAXABLE  
23 PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2019. THE  
24 LEGISLATURE, BY MAJORITY VOTE, MAY EXTEND THIS DATE FOR ANY  
25 DEDUCTION OR EXEMPTION ALLOWED BY THIS SECTION.

26           ~~D.~~ E. For the purposes of this section:

27           1. "Ancillary services" means those services so  
28 designated in federal energy regulatory commission order 888  
29 adopted in 1996 that include the services necessary to support  
30 the transmission of electricity from resources to loads while  
31 maintaining reliable operation of the transmission system  
32 according to good utility practice.

33           2. "Electric distribution service" means distributing  
34 electricity to retail electric customers through the use of  
35 electric distribution facilities.

36           3. "Electric generation service" means providing  
37 electricity for sale to retail electric customers but excluding  
38 electric distribution or transmission services.

39           4. "Electric transmission service" means transmitting  
40 electricity to retail electric customers or to electric  
41 distribution facilities so classified by the federal energy  
42 regulatory commission or, to the extent permitted by law, so  
43 classified by the Arizona corporation commission.

44           5. "Other services" includes metering, meter reading  
45 services, billing and collecting services.

1           6. "Retail electric customer" means a person who  
2 purchases electricity for that person's own use, including use  
3 in that person's trade or business and not for resale,  
4 redistribution or retransmission.

5           Sec. 5. Section 42-5064, Arizona Revised Statutes, is  
6 amended to read:

7           42-5064. Telecommunications classification; definitions

8           A. The telecommunications classification is comprised of  
9 the business of providing intrastate telecommunications  
10 services. The telecommunications classification does not  
11 include:

12           1. Sales of intrastate telecommunications services by a  
13 cable television system as defined in section 9-505 or by a  
14 microwave television transmission system that transmits  
15 television programming to multiple subscribers and that is  
16 operated pursuant to 47 Code of Federal Regulations parts 21  
17 and 74.

18           2. Sales of internet access or application services to  
19 the person's subscribers and customers. For the purposes of  
20 this paragraph:

21           (a) "Application services" means software applications  
22 provided remotely using hypertext transfer protocol or another  
23 network protocol and purchased by or for any school district,  
24 charter school, community college or state university to assess  
25 or test student learning or to promote curriculum design or  
26 enhancement.

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

30           B. The tax base for the telecommunications classification  
31 is the gross proceeds of sales or gross income derived from the  
32 business, including the gross income derived from tolls,  
33 subscriptions and services on behalf of subscribers or from the  
34 publication of a directory of the names of subscribers.  
35 However, the gross proceeds of sales or gross income derived  
36 from the following shall be deducted from the tax base:

37           1. Sales of intrastate telecommunications services to:

38           (a) Other persons engaged in businesses classified under  
39 the telecommunications classification for use in such business.

40           (b) A direct broadcast satellite television or data  
41 transmission service that operates pursuant to 47 Code of  
42 Federal Regulations part 25 for use in its direct broadcast  
43 satellite television or data transmission operation by a  
44 facility described in section 42-5061, subsection B, paragraph  
45 16, subdivision (b).

1           2. End user common line charges established by federal  
2           communications commission regulations (47 Code of Federal  
3           Regulations section 69.104(a)).

4           3. Carrier access charges established by federal  
5           communications commission regulations (47 Code of Federal  
6           Regulations sections 69.105(a) through 69.118).

7           4. Sales of direct broadcast satellite television  
8           services pursuant to 47 Code of Federal Regulations part 25 by a  
9           direct broadcast satellite television service that operates  
10          pursuant to 47 Code of Federal Regulations part 25.

11          5. Telecommunications services purchased with a prepaid  
12          calling card, or a prepaid authorization number for  
13          telecommunications services, that is taxable under section  
14          42-5061.

15          C. A person that is engaged in a transient lodging  
16          business subject to taxation under section 42-5070 and that  
17          provides telephone, fax or internet access services to its  
18          customers at an additional charge, which is separately stated on  
19          the customer invoice, is considered to be engaged in business  
20          subject to taxation under this section for the purposes of  
21          taxing the gross proceeds of sales or gross income derived from  
22          providing those services.

23          D. The gross proceeds of sales or gross income derived  
24          from a bundled transaction of services that are taxable pursuant  
25          to section 42-5023 are subject to the following:

26           1. A telecommunications service provider who can  
27           reasonably identify the portion of the sales price of the  
28           bundled transaction derived from charges for nontaxable services  
29           is subject to tax only on the gross proceeds of sales or gross  
30           income derived from the taxable services. For the purposes of  
31           this section, the telecommunications service provider may elect  
32           to reasonably identify the portion of the sales price of the  
33           bundled transaction derived from charges for nontaxable services  
34           by using allocation percentages derived from the  
35           telecommunications service provider's entire service area,  
36           including territories outside of this state. On request, the  
37           department may require the telecommunications service provider  
38           to provide this allocation information. The reasonableness of  
39           the allocation is subject to audit by the department.

40           2. Notwithstanding sections 42-1118, 42-1120 and 42-1121,  
41           the telecommunications service provider shall waive the right to  
42           file a claim for a refund of taxes paid on the bundled  
43           transaction if the taxes paid are based on the allocation  
44           percentage the telecommunications service provider had

1 determined to be reasonable at the beginning of the tax period  
2 at issue.

3 3. The burden of proof is on the telecommunications  
4 service provider to establish that the gross proceeds of sales  
5 or gross income is derived from charges for nontaxable services.

6 E. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION,  
7 THE ITEMS DESCRIBED IN SUBSECTIONS A AND B OF THIS SECTION SHALL  
8 NOT BE DEDUCTED OR EXEMPTED FROM THE TAX BASE FOR TAXABLE  
9 PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2019. THE  
10 LEGISLATURE, BY MAJORITY VOTE, MAY EXTEND THIS DATE FOR ANY  
11 DEDUCTION OR EXEMPTION ALLOWED BY THIS SECTION.

12 ~~E.~~ F. For the purposes of this section:

13 1. "Bundled transaction" means a sale of multiple  
14 services in which both of the following apply:

15 (a) The sale consists of both taxable and nontaxable  
16 services.

17 (b) The telecommunications service provider charges a  
18 customer one sales price for all services that are sold instead  
19 of separately charging for each individual service.

20 2. "Internet" means the computer and telecommunications  
21 facilities that comprise the interconnected worldwide network of  
22 networks that employ the transmission control protocol or  
23 internet protocol, or any predecessor or successor protocol, to  
24 communicate information of all kinds by wire or radio.

25 3. "Internet access" means a service that enables users  
26 to access content, information, electronic mail or other  
27 services over the internet. Internet access does not include  
28 telecommunications services provided by a common carrier.

29 4. "Intrastate telecommunications services" means  
30 transmitting signs, signals, writings, images, sounds, messages,  
31 data or other information of any nature by wire, radio waves,  
32 light waves or other electromagnetic means if the information  
33 transmitted originates and terminates in this state.

34 Sec. 6. Section 42-5065, Arizona Revised Statutes, is  
35 amended to read:

36 42-5065. Publication classification; definition

37 A. The publication classification is comprised of the  
38 business of publishing newspapers, magazines or other  
39 periodicals and publications if published in this state. The  
40 publication classification does not include:

41 1. Manufacturing or publishing books.

42 2. Sales of magazines or other periodicals or other  
43 publications by this state to encourage tourist travel.

44 B. The tax base for the publication classification is the  
45 gross proceeds of sales or gross income derived from the

1 business, including the gross income derived from notices and  
2 subscription income, but the following shall be deducted from  
3 the tax base:

4 1. Gross income derived from advertising.

5 2. Gross proceeds of sales or gross income derived from  
6 sales of personal property to:

7 (a) Qualifying hospitals as defined in section 42-5001.

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

12 C. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION,  
13 THE ITEMS DESCRIBED IN SUBSECTIONS A AND B OF THIS SECTION SHALL  
14 NOT BE DEDUCTED OR EXEMPTED FROM THE TAX BASE FOR TAXABLE  
15 PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2019. THE  
16 LEGISLATURE, BY MAJORITY VOTE, MAY EXTEND THIS DATE FOR ANY  
17 DEDUCTION OR EXEMPTION ALLOWED BY THIS SECTION.

18 ~~C.~~ D. For purposes of this section "subscription income"  
19 includes all circulation revenue, except amounts actually  
20 retained by or credited to carriers and other vendors as  
21 compensation for sale or delivery of publications and revenue  
22 from publications sold, directly or through wholesalers or  
23 jobbers, to retailers for resale.

24 Sec. 7. Section 42-5066, Arizona Revised Statutes, is  
25 amended to read:

26 42-5066. Job printing classification

27 A. The job printing classification is comprised of the  
28 business of job printing, engraving, embossing and copying.

29 B. The tax base for the job printing classification is  
30 the gross proceeds of sales or gross income derived from the  
31 business, but the gross proceeds of sales or gross income  
32 derived from the following shall be deducted from the tax base:

33 1. Sales to a person in this state who has a transaction  
34 privilege tax license issued in this state, and who does either  
35 of the following:

36 (a) Resells the job printing, engraving, embossing or  
37 copying.

38 (b) Distributes such printing, engraving, embossing or  
39 copying without consideration in connection with the publication  
40 of a newspaper or magazine.

41 2. Sales of job printing, engraving, embossing and  
42 copying for use outside this state if the materials are shipped  
43 or delivered out of this state regardless of where title to the  
44 materials passes or their free on board point.

45 3. Sales of personal property to:

1 (a) Qualifying hospitals as defined in section 42-5001.

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

6 4. Sales of postage and freight except that the amount  
7 deducted shall not exceed the actual postage and freight expense  
8 that is paid to the United States postal service or a commercial  
9 delivery service and that is separately itemized by the taxpayer  
10 on the customer's invoice and in the taxpayer's records.

11 5. Sales to a motion picture production company that will  
12 use the job printing, engraving, embossing or copying directly  
13 in motion picture production. To qualify for this deduction, at  
14 the time of sale, the motion picture production company must  
15 present the job printer its certificate that is issued pursuant  
16 to section 42-5009, subsection H, and that establishes its  
17 qualifications for the deduction.

18 C. NOTWITHSTANDING SUBSECTION B OF THIS SECTION, THE  
19 ITEMS DESCRIBED IN SUBSECTION B OF THIS SECTION SHALL NOT BE  
20 DEDUCTED OR EXEMPTED FROM THE TAX BASE FOR TAXABLE PERIODS  
21 BEGINNING FROM AND AFTER DECEMBER 31, 2019. THE LEGISLATURE, BY  
22 MAJORITY VOTE, MAY EXTEND THIS DATE FOR ANY DEDUCTION OR  
23 EXEMPTION ALLOWED BY THIS SECTION.

24 Sec. 8. Section 42-5067, Arizona Revised Statutes, is  
25 amended to read:

26 42-5067. Pipeline classification

27 A. The pipeline classification is comprised of the  
28 business of operating pipelines for transporting oil or natural  
29 or artificial gas through pipes or conduits from one point to  
30 another point in this state. The pipeline classification does  
31 not include sales of natural gas or liquefied petroleum gas used  
32 to propel a motor vehicle.

33 B. The tax base for the pipeline classification is the  
34 gross proceeds of sales or gross income derived from the  
35 business, but the taxpayer shall deduct from the tax base the  
36 gross proceeds of sales or gross income derived from pipeline  
37 services to:

38 1. Qualifying hospitals as defined in section 42-5001.

39 2. A qualifying health care organization as defined in  
40 section 42-5001 if the oil or gas is used by the organization  
41 solely to provide health and medical related educational and  
42 charitable services.

43 C. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION,  
44 THE ITEMS DESCRIBED IN SUBSECTIONS A AND B OF THIS SECTION SHALL  
45 NOT BE DEDUCTED OR EXEMPTED FROM THE TAX BASE FOR TAXABLE

1 PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2019. THE  
2 LEGISLATURE, BY MAJORITY VOTE, MAY EXTEND THIS DATE FOR ANY  
3 DEDUCTION OR EXEMPTION ALLOWED BY THIS SECTION.

4 Sec. 9. Section 42-5069, Arizona Revised Statutes, is  
5 amended to read:

6 42-5069. Commercial lease classification; definitions

7 A. The commercial lease classification is comprised of  
8 the business of leasing for a consideration the use or occupancy  
9 of real property.

10 B. A person who, as a lessor, leases or rents for a  
11 consideration under one or more leases or rental agreements the  
12 use or occupancy of real property that is used by the lessee for  
13 commercial purposes is deemed to be engaged in business and  
14 subject to the tax imposed by article 1 of this chapter, but  
15 this subsection does not include leases or rentals of real  
16 property used for residential or agricultural purposes.

17 C. The commercial lease classification does not include:

18 1. Any business activities that are classified under the  
19 transient lodging classification.

20 2. Activities engaged in by the Arizona exposition and  
21 state fair board or county fair commissions in connection with  
22 events sponsored by those entities.

23 3. Leasing real property to a lessee who subleases the  
24 property if the lessee is engaged in business classified under  
25 the commercial lease classification or the transient lodging  
26 classification.

27 4. Leasing real property pursuant to a written lease  
28 agreement entered into before December 1, 1967. This exclusion  
29 does not apply to the businesses of hotels, guest houses, dude  
30 ranches and resorts, rooming houses, apartment houses, office  
31 buildings, automobile storage garages, parking lots or tourist  
32 camps, or to the extension or renewal of any such written lease  
33 agreement.

34 5. Leasing real property by a corporation to an  
35 affiliated corporation. For the purposes of this paragraph,  
36 "affiliated corporation" means a corporation that owns or  
37 controls at least eighty per cent of the lessor, that is at  
38 least eighty per cent owned or controlled by the lessor or that  
39 is at least eighty per cent owned or controlled by a corporation  
40 that also owns or controls at least eighty per cent of the  
41 lessor. Ownership and control are determined by reference to  
42 the voting shares of a corporation.

43 6. Leasing real property for boarding horses.

44 7. Leasing or renting real property or the right to use  
45 real property at exhibition events in this state sponsored,

1 operated or conducted by a nonprofit organization that is exempt  
2 from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6) of  
3 the internal revenue code if the organization is associated with  
4 major league baseball teams or a national touring professional  
5 golfing association and no part of the organization's net  
6 earnings inures to the benefit of any private shareholder or  
7 individual.

8 8. Leasing or renting real property or the right to use  
9 real property for use as a rodeo featuring primarily farm and  
10 ranch animals in this state sponsored, operated or conducted by  
11 a nonprofit organization that is exempt from taxation under  
12 section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8)  
13 of the internal revenue code and no part of the organization's  
14 net earnings inures to the benefit of any private shareholder or  
15 individual.

16 9. Leasing or renting dwelling units, lodging facilities  
17 or trailer or mobile home spaces if the units, facilities or  
18 spaces are intended to serve as the principal or permanent place  
19 of residence for the lessee or renter or if the unit, facility  
20 or space is leased or rented to a single tenant thirty or more  
21 consecutive days.

22 10. Leasing or renting real property and improvements for  
23 use primarily for religious worship by a nonprofit organization  
24 that is exempt from taxation under section 501(c)(3) of the  
25 internal revenue code and no part of the organization's net  
26 earnings inures to the benefit of any private shareholder or  
27 individual.

28 11. Leasing or renting real property used for agricultural  
29 purposes under either of the following circumstances:

30 (a) The lease or rental is between family members,  
31 trusts, estates, corporations, partnerships, joint venturers or  
32 similar entities, or any combination thereof, if the individuals  
33 or at least eighty per cent of the beneficiaries, shareholders,  
34 partners or joint venturers share a family relationship as  
35 parents or ancestors of parents, children or descendants of  
36 children, siblings, cousins of the first degree, aunts, uncles,  
37 nieces or nephews of the first degree, spouses of any of the  
38 listed relatives and listed relatives by the half-blood or by  
39 adoption.

40 (b) The lessor leases or rents real property used for  
41 agricultural purposes under no more than three leases or rental  
42 agreements.

43 12. Leasing, renting or granting the right to use real  
44 property to vendors or exhibitors by a trade or industry  
45 association that is a qualifying organization pursuant to

1 section 513(d)(3)(C) of the internal revenue code for a period  
2 not to exceed twenty-one days in connection with an event that  
3 meets all of the following conditions:

4 (a) The majority of such vending or exhibition activities  
5 relate to the nature of the trade or business sponsoring the  
6 event.

7 (b) The event is held in conjunction with a formal  
8 business meeting of the trade or industry association.

9 (c) The event is organized by the persons engaged in the  
10 particular trade or industry.

11 13. Leasing, renting or granting the right to use real  
12 property for a period not to exceed twenty-one days by a  
13 coliseum, civic center, civic plaza, convention center,  
14 auditorium or arena owned by this state or any of its political  
15 subdivisions.

16 14. Leasing or subleasing real property used by a nursing  
17 care institution as defined in section 36-401 that is licensed  
18 pursuant to title 36, chapter 4.

19 15. Leasing or renting an eligible facility as defined in  
20 section 28-7701.

21 16. Granting or providing rights to real property that  
22 constitute a profit à prendre for the severance of minerals,  
23 including all rights to use the surface or subsurface of the  
24 property as is necessary or convenient to the right to sever the  
25 minerals. This paragraph does not exclude from the commercial  
26 lease classification leasehold rights to the real property that  
27 are granted in addition to and not included within the right of  
28 profit à prendre, but the tax base for the grant of such a  
29 leasehold right, if the gross income derived from the grant is  
30 not separately stated from the gross income derived from the  
31 grant of the profit à prendre, shall not exceed the fair market  
32 value of the leasehold rights computed after excluding the value  
33 of all rights under the profit à prendre. For the purposes of  
34 this paragraph, "profit à prendre" means a right to use the land  
35 of another to mine minerals, and carries with it the right of  
36 entry and the right to remove and take the minerals from the  
37 land and also includes the right to use the surface of the land  
38 as is necessary and convenient for exercise of the profit.

39 D. The tax base for the commercial lease classification  
40 is the gross proceeds of sales or gross income derived from the  
41 business, but reimbursements to the lessor for utility service  
42 shall be deducted from the tax base.

43 E. Notwithstanding section 42-1104, subsection B,  
44 paragraph 1, subdivision (b) and paragraph 2, the failure to  
45 file tax returns for the commercial lease classification that

1 report gross income derived from any agreement that constitutes,  
2 in whole or in part, a grant of a right of profit à prendre for  
3 the severance of minerals does not constitute an exception to  
4 the general rule for the statute of limitations.

5 F. NOTWITHSTANDING SUBSECTIONS B, C AND D OF THIS  
6 SECTION, THE ITEMS DESCRIBED IN SUBSECTIONS B, C AND D OF THIS  
7 SECTION SHALL NOT BE DEDUCTED OR EXEMPTED FROM THE TAX BASE FOR  
8 TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2019. THE  
9 LEGISLATURE, BY MAJORITY VOTE, MAY EXTEND THIS DATE FOR ANY  
10 DEDUCTION OR EXEMPTION ALLOWED BY THIS SECTION.

11 ~~F.~~ G. For the purposes of this section:

12 1. "Leasing" includes renting.

13 2. "Real property" includes any improvements, rights or  
14 interest in such property.

15 Sec. 10. Section 42-5070, Arizona Revised Statutes, is  
16 amended to read:

17 42-5070. Transient lodging classification; definition

18 A. The transient lodging classification is comprised of  
19 the business of operating, for occupancy by transients, a hotel  
20 or motel, including an inn, tourist home or house, dude ranch,  
21 resort, campground, studio or bachelor hotel, lodging house,  
22 rooming house, apartment house, dormitory, public or private  
23 club, mobile home or house trailer at a fixed location or other  
24 similar structure, and also including a space, lot or slab which  
25 is occupied or intended or designed for occupancy by transients  
26 in a mobile home or house trailer furnished by them for such  
27 occupancy.

28 B. The transient lodging classification does not include:

29 1. Operating a convalescent home or facility, home for  
30 the aged, hospital, jail, military installation or fraternity or  
31 sorority house or operating any structure exclusively by an  
32 association, institution, governmental agency or corporation for  
33 religious, charitable or educational purposes, if no part of the  
34 net earnings of the association, corporation or other entity  
35 inures to the benefit of any private shareholder or individual.

36 2. A lease or rental of a mobile home or house trailer at  
37 a fixed location or any other similar structure, and also  
38 including a space, lot or slab which is occupied or intended or  
39 designed for occupancy by transients in a mobile home or house  
40 trailer furnished by them for such occupancy for thirty or more  
41 consecutive days.

42 3. Leasing or renting four or fewer rooms of an  
43 owner-occupied residential home, together with furnishing no  
44 more than a breakfast meal, to transient lodgers at no more than  
45 a fifty per cent average annual occupancy rate.

1 C. The tax base for the transient lodging classification  
2 is the gross proceeds of sales or gross income derived from the  
3 business, except that the tax base does not include:

4 1. Gross proceeds of sales or gross income derived from  
5 business activity that is properly included in another business  
6 classification under this article and that is taxable to the  
7 person engaged in that business classification, but the gross  
8 proceeds of sales or gross income to be deducted shall not  
9 exceed the consideration paid to the person conducting the  
10 activity.

11 2. Gross proceeds of sales or gross income from leases or  
12 rentals of lodging space to a motion picture production company  
13 if, at the time of lease or rental, the motion picture  
14 production company presents to the business its certificate of  
15 qualification that is issued pursuant to section 42-5009,  
16 subsection H.

17 D. For the purposes of this section, the tax base for the  
18 transient lodging classification does not include gross proceeds  
19 of sales or gross income derived from:

20 1. Transactions or activities that are not limited to  
21 transients and that would not be taxable if engaged in by a  
22 person not subject to tax under this article.

23 2. Transactions or activities that are not limited to  
24 transients and that would not be taxable if engaged in by a  
25 person subject to taxation under section 42-5062 or 42-5073 due  
26 to an exclusion, exemption or deduction.

27 3. Commissions paid to a person that is engaged in  
28 transient lodging business subject to taxation under this  
29 section by a person providing services or property to the  
30 customers of the person engaging in the transient lodging  
31 business.

32 E. NOTWITHSTANDING SUBSECTIONS B, C AND D OF THIS  
33 SECTION, THE ITEMS DESCRIBED IN SUBSECTIONS B, C AND D OF THIS  
34 SECTION SHALL NOT BE DEDUCTED OR EXEMPTED FROM THE TAX BASE FOR  
35 TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2019. THE  
36 LEGISLATURE, BY MAJORITY VOTE, MAY EXTEND THIS DATE FOR ANY  
37 DEDUCTION OR EXEMPTION ALLOWED BY THIS SECTION.

38 ~~E.~~ F. For the purposes of this section, "transient"  
39 means any person who either at the person's own expense or at  
40 the expense of another obtains lodging space or the use of  
41 lodging space on a daily or weekly basis, or on any other basis  
42 for less than thirty consecutive days.

1           Sec. 11. Section 42-5071, Arizona Revised Statutes, is  
2 amended to read:

3           42-5071. Personal property rental classification

4           A. The personal property rental classification is  
5 comprised of the business of leasing or renting tangible  
6 personal property for a consideration. The tax does not apply  
7 to:

8           1. Leasing or renting films, tapes or slides used by  
9 theaters or movies, which are engaged in business under the  
10 amusement classification, or used by television stations or  
11 radio stations.

12           2. Activities engaged in by the Arizona exposition and  
13 state fair board or county fair commissions in connection with  
14 events sponsored by such entities.

15           3. Leasing or renting tangible personal property by a  
16 parent corporation to a subsidiary corporation or by a  
17 subsidiary corporation to another subsidiary of the same parent  
18 corporation if taxes were paid under this chapter on the gross  
19 proceeds or gross income accruing from the initial sale of the  
20 tangible personal property. For the purposes of this paragraph,  
21 "subsidiary" means a corporation of which at least eighty per  
22 cent of the voting shares are owned by the parent corporation.

23           4. Operating coin operated washing, drying and dry  
24 cleaning machines or coin operated car washing machines at  
25 establishments for the use of such machines.

26           5. Leasing or renting tangible personal property for  
27 incorporation into or comprising any part of a qualified  
28 environmental technology facility as described in section  
29 41-1514.02. This paragraph shall apply for ten full consecutive  
30 calendar or fiscal years following the initial lease or rental  
31 by each qualified environmental technology manufacturer,  
32 producer or processor.

33           6. Leasing or renting aircraft, flight simulators or  
34 similar training equipment to students or staff by nonprofit,  
35 accredited educational institutions that offer associate or  
36 baccalaureate degrees in aviation or aerospace related fields.

37           7. Leasing or renting photographs, transparencies or  
38 other creative works used by this state on internet web sites,  
39 in magazines or in other publications that encourage tourism.

40           B. The tax base for the personal property rental  
41 classification is the gross proceeds of sales or gross income  
42 derived from the business, but the gross proceeds of sales or  
43 gross income derived from the following shall be deducted from  
44 the tax base:

1           1. Reimbursements by the lessee to the lessor of a motor  
2 vehicle for payments by the lessor of the applicable fees and  
3 taxes imposed by sections 28-2003, 28-2352, 28-2402, 28-2481 and  
4 28-5801, title 28, chapter 15, article 2 and article IX, section  
5 11, Constitution of Arizona, to the extent such amounts are  
6 separately identified as such fees and taxes and are billed to  
7 the lessee.

8           2. Leases or rentals of tangible personal property which,  
9 if it had been purchased instead of leased or rented by the  
10 lessee, would have been exempt under:

11           (a) Section 42-5061, subsection A, paragraph 8, 9, 12,  
12 13, 25, 29, 50 or 55.

13           (b) Section 42-5061, subsection B, except that a lease or  
14 rental of new machinery or equipment is not exempt pursuant to:

15           (i) Section 42-5061, subsection B, paragraph 13 if the  
16 lease is for less than two years.

17           (ii) Section 42-5061, subsection B, paragraph 22 if the  
18 lease is for less than five years.

19           (c) Section 42-5061, subsection J, paragraph 1.

20           (d) Section 42-5061, subsection N.

21           3. Motor vehicle fuel and use fuel that are subject to a  
22 tax imposed under title 28, chapter 16, article 1, sales of use  
23 fuel to a holder of a valid single trip use fuel tax permit  
24 issued under section 28-5739 and sales of aviation fuel that are  
25 subject to the tax imposed under section 28-8344.

26           4. Leasing or renting a motor vehicle subject to and upon  
27 which the fee has been paid under title 28, chapter 16,  
28 article 4.

29           5. Amounts received by a motor vehicle dealer for the  
30 first month of a lease payment if the lease and the lease  
31 payment for the first month of the lease are transferred to a  
32 third party leasing company.

33           C. Sales of tangible personal property to be leased or  
34 rented to a person engaged in a business classified under the  
35 personal property rental classification are deemed to be resale  
36 sales.

37           D. In computing the tax base, the gross proceeds of sales  
38 or gross income from the lease or rental of a motor vehicle does  
39 not include any amount attributable to the car rental surcharge  
40 under section 28-5810 or 48-4234.

41           E. Until December 31, 1988, leasing or renting animals  
42 for recreational purposes is exempt from the tax imposed by this  
43 section. Beginning January 1, 1989, the gross proceeds or gross  
44 income from leasing or renting animals for recreational purposes  
45 is subject to taxation under this section. Tax liabilities,

1 penalties and interest paid for taxable periods before January  
2 1, 1989 shall not be refunded unless the taxpayer requesting the  
3 refund provides proof satisfactory to the department that the  
4 monies paid as taxes will be returned to the customer.

5 F. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION,  
6 THE ITEMS DESCRIBED IN SUBSECTIONS A AND B OF THIS SECTION SHALL  
7 NOT BE DEDUCTED OR EXEMPTED FROM THE TAX BASE FOR TAXABLE  
8 PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2019. THE  
9 LEGISLATURE, BY MAJORITY VOTE, MAY EXTEND THIS DATE FOR ANY  
10 DEDUCTION OR EXEMPTION ALLOWED BY THIS SECTION.

11 Sec. 12. Section 42-5072, Arizona Revised Statutes, is  
12 amended to read:

13 42-5072. Mining classification; definition

14 A. The mining classification is comprised of the business  
15 of mining, quarrying or producing for sale, profit or commercial  
16 use any nonmetalliferous mineral product that has been mined,  
17 quarried or otherwise extracted within the boundaries of this  
18 state described in article I, section 1, Constitution of  
19 Arizona.

20 B. The tax base for the mining classification is the  
21 gross proceeds of sales or gross income derived from the  
22 business. THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY  
23 MAJORITY VOTE, EXTENDS THIS DATE, the gross proceeds of sales or  
24 gross income derived from sales described under section 42-5061,  
25 subsection A, paragraph 27 and subsection J, paragraph 2 shall  
26 be deducted from the tax base.

27 C. The tax base includes the value of the entire product  
28 mined, quarried or produced for sale, profit or commercial use  
29 in this state, regardless of the place of sale of the product or  
30 of the fact that deliveries may be made to points without this  
31 state. If, however, the sale price of the product includes  
32 freight, the sale price shall be reduced by the actual freight  
33 paid by any person from the place of production to the place of  
34 delivery.

35 D. In the case of a person engaged in business classified  
36 under the mining classification all or part of whose income is  
37 derived from service or manufacturing charges instead of from  
38 sales of the products manufactured or handled, the tax base  
39 includes the gross income of the person derived from the service  
40 or manufacturing charge.

41 E. If a person engaging in business classified under the  
42 mining classification ships or transports all or part of a  
43 product out of this state without making sale of the product or  
44 ships his product outside of this state in an unfinished  
45 condition, the value of the product or article in the condition

1 or form in which it existed when transported out of this state  
2 and before it enters interstate commerce is included in the tax  
3 base, and the department shall prescribe equitable and uniform  
4 rules for ascertaining that value. In determining the tax base,  
5 if the product or any part of the product has been processed in  
6 this state and the proceeds of such processing have been  
7 included in the tax base of the processor under this chapter,  
8 the person may deduct from the value of the product when  
9 transported out of this state the cost of such processing.

10 F. A person who conducts a business classified under the  
11 mining classification may be deemed also to be engaged in  
12 business classified under the retail classification to the  
13 extent the person's activities comprise business under the  
14 retail classification if the tax is paid at the rate imposed on  
15 the retail classification by section 42-5010. If the  
16 transaction is not subject to taxation under the retail  
17 classification, the transaction shall be included in the tax  
18 base under this section.

19 G. For the purposes of this section, "nonmetalliferous  
20 mineral product" means oil, natural gas, limestone, sand, gravel  
21 or any other nonmetalliferous mineral product, compound or  
22 combination of nonmetalliferous mineral products.

23 Sec. 13. Section 42-5073, Arizona Revised Statutes, is  
24 amended to read:

25 42-5073. Amusement classification

26 A. The amusement classification is comprised of the  
27 business of operating or conducting theaters, movies, operas,  
28 shows of any type or nature, exhibitions, concerts, carnivals,  
29 circuses, amusement parks, menageries, fairs, races, contests,  
30 games, billiard or pool parlors, bowling alleys, public dances,  
31 dance halls, boxing and wrestling matches, skating rinks, tennis  
32 courts, except as provided in subsection B of this section,  
33 video games, pinball machines, sports events or any other  
34 business charging admission or user fees for exhibition,  
35 amusement or entertainment, including the operation or  
36 sponsorship of events by a tourism and sports authority under  
37 title 5, chapter 8. For purposes of this section, admission or  
38 user fees include, but are not limited to, any revenues derived  
39 from any form of contractual agreement for rights to or use of  
40 premium or special seating facilities or arrangements. The  
41 amusement classification does not include:

42 1. Activities or projects of bona fide religious or  
43 educational institutions.

44 2. Private or group instructional activities. For the  
45 purposes of this paragraph, "private or group instructional

1 activities" includes, but is not limited to, performing arts,  
2 martial arts, gymnastics and aerobic instruction.

3 3. The operation or sponsorship of events by the Arizona  
4 exposition and state fair board or county fair commissions.

5 4. A musical, dramatic or dance group or a botanical  
6 garden, museum or zoo that is qualified as a nonprofit  
7 charitable organization under section 501(c)(3) of the United  
8 States internal revenue code and if no part of its net income  
9 inures to the benefit of any private shareholder or individual.

10 5. Exhibition events in this state sponsored, conducted  
11 or operated by a nonprofit organization that is exempt from  
12 taxation under section 501(c)(3), 501(c)(4) or 501(c)(6) of the  
13 internal revenue code if the organization is associated with  
14 major league baseball teams or a national touring professional  
15 golfing association and no part of the organization's net  
16 earnings inures to the benefit of any private shareholder or  
17 individual.

18 6. Operating or sponsoring rodeos that feature primarily  
19 farm and ranch animals in this state and that are sponsored,  
20 conducted or operated by a nonprofit organization that is exempt  
21 from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),  
22 501(c)(7) or 501(c)(8) of the internal revenue code and no part  
23 of the organization's net earnings inures to the benefit of any  
24 private shareholder or individual.

25 7. Sales of admissions to intercollegiate football  
26 contests if the contests are both:

27 (a) Operated by a nonprofit organization that is exempt  
28 from taxation under section 501(c)(3) of the internal revenue  
29 code and no part of the organization's net earnings inures to  
30 the benefit of any private shareholder or individual.

31 (b) Not held in a multipurpose facility that is owned or  
32 operated by the tourism and sports authority pursuant to title  
33 5, chapter 8.

34 8. Activities and events of, or fees and assessments  
35 received by, a homeowners organization from persons who are  
36 members of the organization or accompanied guests of  
37 members. For the purposes of this paragraph, "homeowners  
38 organization" means a mandatory membership organization  
39 comprised of owners of residential property within a specified  
40 residential real estate subdivision development or similar area  
41 and established to own property for the benefit of its members  
42 where both of the following apply:

43 (a) No part of the organization's net earnings inures to  
44 the benefit of any private shareholder or individual.

1 (b) The primary purpose of the organization is to provide  
2 for the acquisition, construction, management, maintenance or  
3 care of organization property.

4 9. Activities and events of, or fees received by, a  
5 nonprofit organization that is exempt from taxation under  
6 section 501(c)(6) of the internal revenue code if the  
7 organization produces, organizes or promotes cultural or civic  
8 related festivals or events and no part of the organization's  
9 net earnings inures to the benefit of any private shareholder or  
10 individual.

11 10. Arranging an amusement activity as a service to a  
12 person's customers if that person is not otherwise engaged in  
13 the business of operating or conducting an amusement personally  
14 or through others. This exception does not apply to businesses  
15 that operate or conduct amusements pursuant to customer orders  
16 and send the billings and receive the payments associated with  
17 that activity, including when the amusement is performed by  
18 third party independent contractors. For the purposes of this  
19 paragraph, "arranging" includes billing for or collecting  
20 amusement charges from a person's customers on behalf of the  
21 persons providing the amusement.

22 B. The tax base for the amusement classification is the  
23 gross proceeds of sales or gross income derived from the  
24 business, except that the following shall be deducted from the  
25 tax base:

26 1. The gross proceeds of sales or gross income derived  
27 from memberships, including initiation fees, which provide for  
28 the right to use a health or fitness establishment or a private  
29 recreational establishment, or any portion of an establishment,  
30 including tennis and other racquet courts at that establishment,  
31 for participatory purposes for twenty-eight days or more and  
32 fees charged for use of the health or fitness establishment or  
33 private recreational establishment by bona fide accompanied  
34 guests of members, except that this paragraph does not include  
35 additional fees, other than initiation fees, charged by a health  
36 or fitness establishment or a private recreational establishment  
37 for purposes other than memberships which provide for the right  
38 to use a health or fitness establishment or private recreational  
39 establishment, or any portion of an establishment, for  
40 participatory purposes for twenty-eight days or more and  
41 accompanied guest use fees.

42 2. Amounts that are exempt under section 5-111,  
43 subsection H.

44 3. The gross proceeds of sales or gross income derived  
45 from membership fees, including initiation fees, that provide

1 for the right to use a transient lodging recreational  
2 establishment, including golf courses and tennis and other  
3 racquet courts at that establishment, for participatory purposes  
4 for twenty-eight days or more, except that this paragraph does  
5 not include additional fees, other than initiation fees, that  
6 are charged by a transient lodging recreational establishment  
7 for purposes other than memberships and that provide for the  
8 right to use a transient lodging recreational establishment or  
9 any portion of the establishment for participatory purposes for  
10 twenty-eight days or more.

11 4. The gross proceeds of sales or gross income derived  
12 from sales to persons engaged in the business of transient  
13 lodging classified under section 42-5070, if all of the  
14 following apply:

15 (a) The persons who are engaged in the transient lodging  
16 business sell the amusement to another person for consideration.

17 (b) The consideration received by the transient lodging  
18 business is equal to or greater than the amount to be deducted  
19 under this subsection.

20 (c) The transient lodging business has provided an  
21 exemption certificate to the person engaging in business under  
22 this section.

23 5. The gross proceeds of sales or gross income derived  
24 from:

25 (a) Business activity that is properly included in any  
26 other business classification under this article and that is  
27 taxable to the person engaged in that classification, but the  
28 gross proceeds of sales or gross income to be deducted shall not  
29 exceed the consideration paid to the person conducting the  
30 activity.

31 (b) Business activity that is arranged by the person who  
32 is subject to tax under this section and that is not taxable to  
33 the person conducting the activity due to an exclusion,  
34 exemption or deduction under this section or section 42-5062,  
35 but the gross proceeds of sales or gross income to be deducted  
36 shall not exceed the consideration paid to the person conducting  
37 the activity.

38 (c) Business activity that is arranged by a person who is  
39 subject to tax under this section and that is taxable to another  
40 person under this section who conducts the activity, but the  
41 gross proceeds of sales or gross income to be deducted shall not  
42 exceed the consideration paid to the person conducting the  
43 activity.

44 C. For the purposes of subsection B of this section:

1           1. "Health or fitness establishment" means a facility  
2 whose primary purpose is to provide facilities, equipment,  
3 instruction or education to promote the health and fitness of  
4 its members and at least eighty per cent of the monthly gross  
5 revenue of the facility is received through accounts of  
6 memberships and accompanied guest use fees which provide for the  
7 right to use the facility, or any portion of the facility, under  
8 the terms of the membership agreement for participatory purposes  
9 for twenty-eight days or more.

10           2. "Private recreational establishment" means a facility  
11 whose primary purpose is to provide recreational facilities,  
12 such as tennis, golf and swimming, for its members and where at  
13 least eighty per cent of the monthly gross revenue of the  
14 facility is received through accounts of memberships and  
15 accompanied guest use fees which provide for the right to use  
16 the facility, or any portion of the facility, for participatory  
17 purposes for twenty-eight days or more.

18           3. "Transient lodging recreational establishment" means a  
19 facility whose primary purpose is to provide facilities for  
20 transient lodging, that is subject to taxation under this  
21 chapter and that also provides recreational facilities, such as  
22 tennis, golf and swimming, for members for a period of  
23 twenty-eight days or more.

24           D. Until December 31, 1988, the revenues from hayrides  
25 and other animal-drawn amusement rides, from horseback riding  
26 and riding instruction and from recreational tours using motor  
27 vehicles designed to operate on and off public highways are  
28 exempt from the tax imposed by this section. Beginning January  
29 1, 1989, the gross proceeds or gross income from hayrides and  
30 other animal-drawn amusement rides, from horseback riding and  
31 from recreational tours using motor vehicles designed to operate  
32 on and off public highways are subject to taxation under this  
33 section. Tax liabilities, penalties and interest paid for  
34 taxable periods before January 1, 1989 shall not be refunded  
35 unless the taxpayer requesting the refund provides proof  
36 satisfactory to the department that the taxes will be returned  
37 to the customer.

38           E. If a person is engaged in the business of offering  
39 both exhibition, amusement or entertainment and private or group  
40 instructional activities, the person's books shall be kept to  
41 show separately the gross income from exhibition, amusement or  
42 entertainment and the gross income from instructional  
43 activities. If the books do not provide this separate  
44 accounting, the tax is imposed on the person's total gross  
45 income from the business.

1 F. For purposes of section 42-5032.01, the department  
2 shall separately account for revenues collected under the  
3 amusement classification from sales of admissions to:

4 1. Events that are held in a multipurpose facility that  
5 is owned or operated by the tourism and sports authority  
6 pursuant to title 5, chapter 8, including intercollegiate  
7 football contests that are operated by a nonprofit organization  
8 that is exempt from taxation under section 501(c)(3) of the  
9 internal revenue code.

10 2. Professional football contests that are held in a  
11 stadium located on the campus of an institution under the  
12 jurisdiction of the Arizona board of regents.

13 G. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION,  
14 THE ITEMS DESCRIBED IN SUBSECTIONS A AND B OF THIS SECTION SHALL  
15 NOT BE DEDUCTED OR EXEMPTED FROM THE TAX BASE FOR TAXABLE  
16 PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2019. THE  
17 LEGISLATURE, BY MAJORITY VOTE, MAY EXTEND THIS DATE FOR ANY  
18 DEDUCTION OR EXEMPTION ALLOWED BY THIS SECTION.

19 Sec. 14. Section 42-5074, Arizona Revised Statutes, is  
20 amended to read:

21 42-5074. Restaurant classification

22 A. The restaurant classification is comprised of the  
23 business of operating restaurants, dining cars, dining rooms,  
24 lunchrooms, lunch stands, soda fountains, catering services or  
25 similar establishments where articles of food or drink are sold  
26 for consumption on or off the premises.

27 B. The tax base for the restaurant classification is the  
28 gross proceeds of sales or gross income derived from the  
29 business. The gross proceeds of sales or gross income derived  
30 from the following shall be deducted from the tax base:

31 1. Sales to a person engaged in business classified under  
32 the restaurant classification if the items sold are to be resold  
33 in the regular course of the business.

34 2. Sales by a congressionally chartered veterans  
35 organization of food or drink prepared for consumption on the  
36 premises leased, owned or maintained by the organization.

37 3. Sales by churches, fraternal benefit societies and  
38 other nonprofit organizations, as these organizations are  
39 defined in the federal internal revenue code (26 United States  
40 Code section 501), which do not regularly engage or continue in  
41 the restaurant business for the purpose of fund-raising.

42 4. Sales by a nonprofit organization that is exempt from  
43 taxation under section 501(c)(3), 501(c)(4) or 501(c)(6) of the  
44 internal revenue code if the organization is associated with a  
45 major league baseball team or a national touring professional

1 golfing association and no part of the organization's net  
2 earnings inures to the benefit of any private shareholder or  
3 individual.

4 5. Sales at a rodeo featuring primarily farm and ranch  
5 animals in this state by a nonprofit organization that is exempt  
6 from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),  
7 501(c)(7) or 501(c)(8) of the internal revenue code and no part  
8 of the organization's net earnings inures to the benefit of any  
9 private shareholder or individual.

10 6. Sales by any nonprofit organization organized and  
11 operated exclusively for charitable purposes and recognized by  
12 the United States internal revenue service under section  
13 501(c)(3) of the internal revenue code.

14 7. Sales to qualifying hospitals as defined in section  
15 42-5001.

16 8. Sales to a qualifying health care organization as  
17 defined in section 42-5001 if the tangible personal property is  
18 used by the organization solely to provide health and medical  
19 related educational and charitable services.

20 9. Sales of food, drink and condiment for consumption  
21 within the premises of any prison, jail or other institution  
22 under the jurisdiction of the state department of corrections,  
23 the department of public safety, the department of juvenile  
24 corrections or a county sheriff.

25 10. Sales of catered food, drink and condiment to a motion  
26 picture production company. To qualify for this deduction, at  
27 the time of purchase, the motion picture production company must  
28 present to the business its certificate of qualification that is  
29 issued pursuant to section 42-5009, subsection H and that  
30 establishes its qualification for the deduction.

31 11. Sales of articles of prepared or unprepared food,  
32 drink or condiment and accessory tangible personal property to a  
33 school district or charter school if the articles and accessory  
34 tangible personal property are served to persons for consumption  
35 on the premises of a public school in the school district or  
36 charter school during school hours.

37 12. Prepared food, drink or condiment donated by a  
38 restaurant to a nonprofit charitable organization that has  
39 qualified under section 501(c)(3) of the internal revenue code  
40 and that regularly serves meals to the needy and indigent on a  
41 continuing basis at no cost.

42 C. The tax imposed on the restaurant classification  
43 pursuant to this section does not apply to the gross proceeds of  
44 sales or gross income from tangible personal property sold to a  
45 commercial airline consisting of food, beverages and condiments

1 and accessories used for serving the food and beverages, if  
2 those items are to be provided without additional charge to  
3 passengers for consumption in flight. For the purposes of this  
4 subsection, "commercial airline" means a person holding a  
5 federal certificate of public convenience and necessity or  
6 foreign air carrier permit for air transportation to transport  
7 persons, property or United States mail in intrastate,  
8 interstate or foreign commerce.

9 D. For purposes of section 42-5032.01, the department  
10 shall separately account for revenues collected under the  
11 restaurant classification from businesses operating restaurants,  
12 dining rooms, lunchrooms, lunch stands, soda fountains, catering  
13 services or similar establishments:

14 1. On the premises of a multipurpose facility that is  
15 owned or operated by the tourism and sports authority pursuant  
16 to title 5, chapter 8 for consumption on or off the premises.

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

20 E. NOTWITHSTANDING SUBSECTIONS B AND C OF THIS SECTION,  
21 THE ITEMS DESCRIBED IN SUBSECTIONS B AND C OF THIS SECTION SHALL  
22 NOT BE DEDUCTED OR EXEMPTED FROM THE TAX BASE FOR TAXABLE  
23 PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2019. THE  
24 LEGISLATURE, BY MAJORITY VOTE, MAY EXTEND THIS DATE FOR ANY  
25 DEDUCTION OR EXEMPTION ALLOWED BY THIS SECTION.

26 Sec. 15. Section 42-5075, Arizona Revised Statutes, is  
27 amended to read:

28 42-5075. Prime contracting classification; exemptions;  
29 definitions

30 A. The prime contracting classification is comprised of  
31 the business of prime contracting and dealership of manufactured  
32 buildings. Sales for resale to another dealership of  
33 manufactured buildings are not subject to tax. Sales for resale  
34 do not include sales to a lessor of manufactured buildings. The  
35 sale of a used manufactured building is not taxable under this  
36 chapter. The proceeds from alteration and repairs to a used  
37 manufactured building are taxable under this section.

38 B. The tax base for the prime contracting classification  
39 is sixty-five per cent of the gross proceeds of sales or gross  
40 income derived from the business. THROUGH DECEMBER 31, 2019,  
41 UNLESS THE LEGISLATURE, BY MAJORITY VOTE EXTENDS THIS DATE, the  
42 following amounts shall be deducted from the gross proceeds of  
43 sales or gross income before computing the tax base:

44 1. The sales price of land, which shall not exceed the  
45 fair market value.

1           2. Sales and installation of groundwater measuring  
2 devices required under section 45-604 and groundwater monitoring  
3 wells required by law, including monitoring wells installed for  
4 acquiring information for a permit required by law.

5           3. The sales price of furniture, furnishings, fixtures,  
6 appliances and attachments that are not incorporated as  
7 component parts of or attached to a manufactured building or the  
8 setup site. The sale of such items may be subject to the taxes  
9 imposed by article 1 of this chapter separately and distinctly  
10 from the sale of the manufactured building.

11           4. The gross proceeds of sales or gross income received  
12 from a contract entered into for the construction, alteration,  
13 repair, addition, subtraction, improvement, movement, wrecking  
14 or demolition of any building, highway, road, railroad,  
15 excavation, manufactured building or other structure, project,  
16 development or improvement located in a military reuse zone for  
17 providing aviation or aerospace services or for a manufacturer,  
18 assembler or fabricator of aviation or aerospace products within  
19 an active military reuse zone after the zone is initially  
20 established or renewed under section 41-1531. To be eligible to  
21 qualify for this deduction, before beginning work under the  
22 contract, the prime contractor must have applied for a letter of  
23 qualification from the department of revenue.

24           5. The gross proceeds of sales or gross income derived  
25 from a contract to construct a qualified environmental  
26 technology manufacturing, producing or processing facility, as  
27 described in section 41-1514.02, and from subsequent  
28 construction and installation contracts that begin within ten  
29 years after the start of initial construction. To qualify for  
30 this deduction, before beginning work under the contract, the  
31 prime contractor must obtain a letter of qualification from the  
32 department of revenue. This paragraph shall apply for ten full  
33 consecutive calendar or fiscal years after the start of initial  
34 construction.

35           6. The gross proceeds of sales or gross income from a  
36 contract to provide for one or more of the following actions, or  
37 a contract for site preparation, constructing, furnishing or  
38 installing machinery, equipment or other tangible personal  
39 property, including structures necessary to protect exempt  
40 incorporated materials or installed machinery or equipment, and  
41 tangible personal property incorporated into the project, to  
42 perform one or more of the following actions in response to a  
43 release or suspected release of a hazardous substance, pollutant  
44 or contaminant from a facility to the environment, unless the

1 release was authorized by a permit issued by a governmental  
2 authority:

3 (a) Actions to monitor, assess and evaluate such a  
4 release or a suspected release.

5 (b) Excavation, removal and transportation of  
6 contaminated soil and its treatment or disposal.

7 (c) Treatment of contaminated soil by vapor extraction,  
8 chemical or physical stabilization, soil washing or biological  
9 treatment to reduce the concentration, toxicity or mobility of a  
10 contaminant.

11 (d) Pumping and treatment or in situ treatment of  
12 contaminated groundwater or surface water to reduce the  
13 concentration or toxicity of a contaminant.

14 (e) The installation of structures, such as cutoff walls  
15 or caps, to contain contaminants present in groundwater or soil  
16 and prevent them from reaching a location where they could  
17 threaten human health or welfare or the environment.

18 This paragraph does not include asbestos removal or the  
19 construction or use of ancillary structures such as maintenance  
20 sheds, offices or storage facilities for unattached equipment,  
21 pollution control equipment, facilities or other control items  
22 required or to be used by a person to prevent or control  
23 contamination before it reaches the environment.

24 7. The gross proceeds of sales or gross income that is  
25 derived from a contract entered into for the installation,  
26 assembly, repair or maintenance of machinery, equipment or other  
27 tangible personal property that is deducted from the tax base of  
28 the retail classification pursuant to section 42-5061,  
29 subsection B, or that is exempt from use tax pursuant to section  
30 42-5159, subsection B, and that does not become a permanent  
31 attachment to a building, highway, road, railroad, excavation or  
32 manufactured building or other structure, project, development  
33 or improvement. If the ownership of the realty is separate from  
34 the ownership of the machinery, equipment or tangible personal  
35 property, the determination as to permanent attachment shall be  
36 made as if the ownership were the same. The deduction provided  
37 in this paragraph does not include gross proceeds of sales or  
38 gross income from that portion of any contracting activity which  
39 consists of the development of, or modification to, real  
40 property in order to facilitate the installation, assembly,  
41 repair, maintenance or removal of machinery, equipment or other  
42 tangible personal property that is deducted from the tax base of  
43 the retail classification pursuant to section 42-5061,  
44 subsection B or that is exempt from use tax pursuant to section

1 42-5159, subsection B. For the purposes of this paragraph,  
2 "permanent attachment" means at least one of the following:

3 (a) To be incorporated into real property.

4 (b) To become so affixed to real property that it becomes  
5 a part of the real property.

6 (c) To be so attached to real property that removal would  
7 cause substantial damage to the real property from which it is  
8 removed.

9 8. Through December 31, 2009, the gross proceeds of sales  
10 or gross income received from a contract for constructing any  
11 lake facility development in a commercial enhancement reuse  
12 district ~~that is designated pursuant to section 9-499.08~~ if the  
13 prime contractor maintains the following records in a form  
14 satisfactory to the department and to the city or town in which  
15 the property is located:

16 (a) The certificate of qualification of the lake facility  
17 development issued by the city or town ~~pursuant to section~~  
18 ~~9-499.08, subsection D.~~

19 (b) All state and local transaction privilege tax returns  
20 for the period of time during which the prime contractor  
21 received gross proceeds of sales or gross income from a contract  
22 to construct a lake facility development in a designated  
23 commercial enhancement reuse district, showing the amount  
24 exempted from state and local taxation.

25 (c) Any other information that the department considers  
26 to be necessary.

27 9. The gross proceeds of sales or gross income  
28 attributable to the purchase of machinery, equipment or other  
29 tangible personal property that is exempt from or deductible  
30 from transaction privilege and use tax under:

31 (a) Section 42-5061, subsection A, paragraph 25 or 29.

32 (b) Section 42-5061, subsection B.

33 (c) Section 42-5159, subsection A, paragraph 13,  
34 subdivision (a), (b), (c), (d), (e), (f), (i), (j) or (l).

35 (d) Section 42-5159, subsection B.

36 10. The gross proceeds of sales or gross income received  
37 from a contract for the construction of an environmentally  
38 controlled facility for the raising of poultry for the  
39 production of eggs and the sorting, cooling and packaging of  
40 eggs.

41 11. The gross proceeds of sales or gross income that is  
42 derived from a contract entered into with a person who is  
43 engaged in the commercial production of livestock, livestock  
44 products or agricultural, horticultural, viticultural or  
45 floricultural crops or products in this state for the

1 construction, alteration, repair, improvement, movement,  
2 wrecking or demolition or addition to or subtraction from any  
3 building, highway, road, excavation, manufactured building or  
4 other structure, project, development or improvement used  
5 directly and primarily to prevent, monitor, control or reduce  
6 air, water or land pollution.

7 12. The gross proceeds of sales or gross income that is  
8 derived from the installation, assembly, repair or maintenance  
9 of clean rooms that are deducted from the tax base of the retail  
10 classification pursuant to section 42-5061, subsection B,  
11 paragraph 17.

12 13. For taxable periods beginning from and after June 30,  
13 2001, the gross proceeds of sales or gross income derived from a  
14 contract entered into for the construction of a residential  
15 apartment housing facility that qualifies for a federal housing  
16 subsidy for low income persons over sixty-two years of age and  
17 that is owned by a nonprofit charitable organization that has  
18 qualified under section 501(c)(3) of the internal revenue code.

19 14. For taxable periods beginning from and after December  
20 31, 1996 and ending before January 1, 2017, the gross proceeds  
21 of sales or gross income derived from a contract to provide and  
22 install a solar energy device. The contractor shall register  
23 with the department as a solar energy contractor. By  
24 registering, the contractor acknowledges that it will make its  
25 books and records relating to sales of solar energy devices  
26 available to the department for examination.

27 15. The gross proceeds of sales or gross income derived  
28 from a contract entered into for the construction of a launch  
29 site, as defined in 14 Code of Federal Regulations section  
30 401.5.

31 16. The gross proceeds of sales or gross income derived  
32 from a contract entered into for the construction of a domestic  
33 violence shelter that is owned and operated by a nonprofit  
34 charitable organization that has qualified under section  
35 501(c)(3) of the internal revenue code.

36 17. The gross proceeds of sales or gross income derived  
37 from contracts to perform postconstruction treatment of real  
38 property for termite and general pest control, including wood  
39 destroying organisms.

40 18. The gross proceeds of sales or gross income received  
41 from contracts entered into before July 1, 2006 for constructing  
42 a state university research infrastructure project if the  
43 project has been reviewed by the joint committee on capital  
44 review before the university enters into the construction  
45 contract for the project. For the purposes of this paragraph,

1 "research infrastructure" has the same meaning prescribed in  
2 section 15-1670.

3 19. The gross proceeds of sales or gross income received  
4 from a contract for the construction of any building, or other  
5 structure, project, development or improvement owned by a  
6 qualified business under section 41-1516 for harvesting or the  
7 initial processing of qualifying forest products removed from  
8 qualifying projects as defined in section 41-1516 if actual  
9 construction begins before January 1, 2010. To qualify for this  
10 deduction, the prime contractor must obtain a letter of  
11 qualification from the department of commerce before beginning  
12 work under the contract.

13 20. The gross proceeds of sales or gross income received  
14 from a contract for the construction of any building or other  
15 structure associated with motion picture production in this  
16 state. To qualify for the deduction, at the time the contract  
17 is entered into the motion picture production company must  
18 present to the prime contractor its certificate that is issued  
19 pursuant to section 42-5009, subsection H and that establishes  
20 its qualification for the deduction.

21 21. Any amount of the gross proceeds of sales or gross  
22 income attributable to development fees that are incurred in  
23 relation to a contract for construction, development or  
24 improvement of real property and that are paid by a prime  
25 contractor or subcontractor. For the purposes of this  
26 paragraph:

27 (a) The attributable amount shall not exceed the value of  
28 the development fees actually imposed.

29 (b) The attributable amount is equal to the total amount  
30 of development fees paid by the prime contractor or  
31 subcontractor, and the total development fees credited in  
32 exchange for the construction of, contribution to or dedication  
33 of real property for providing public infrastructure, public  
34 safety or other public services necessary to the development.  
35 The real property must be the subject of the development fees.

36 (c) "Development fees" means fees imposed to offset  
37 capital costs of providing public infrastructure, public safety  
38 or other public services to a development and authorized  
39 pursuant to section 9-463.05, section 11-1102 or title 48  
40 regardless of the jurisdiction to which the fees are paid.

41 C. Entitlement to the deduction pursuant to subsection B,  
42 paragraph 7 of this section is subject to the following  
43 provisions:

44 1. A prime contractor may establish entitlement to the  
45 deduction by both:

1 (a) Marking the invoice for the transaction to indicate  
2 that the gross proceeds of sales or gross income derived from  
3 the transaction was deducted from the base.

4 (b) Obtaining a certificate executed by the purchaser  
5 indicating the name and address of the purchaser, the precise  
6 nature of the business of the purchaser, the purpose for which  
7 the purchase was made, the necessary facts to establish the  
8 deductibility of the property under section 42-5061, subsection  
9 B, and a certification that the person executing the certificate  
10 is authorized to do so on behalf of the purchaser. The  
11 certificate may be disregarded if the prime contractor has  
12 reason to believe that the information contained in the  
13 certificate is not accurate or complete.

14 2. A person who does not comply with paragraph 1 of this  
15 subsection may establish entitlement to the deduction by  
16 presenting facts necessary to support the entitlement, but the  
17 burden of proof is on that person.

18 3. The department may prescribe a form for the  
19 certificate described in paragraph 1, subdivision (b) of this  
20 subsection. The department may also adopt rules that describe  
21 the transactions with respect to which a person is not entitled  
22 to rely solely on the information contained in the certificate  
23 provided in paragraph 1, subdivision (b) of this subsection but  
24 must instead obtain such additional information as required in  
25 order to be entitled to the deduction.

26 4. If a prime contractor is entitled to a deduction by  
27 complying with paragraph 1 of this subsection, the department  
28 may require the purchaser who caused the execution of the  
29 certificate to establish the accuracy and completeness of the  
30 information required to be contained in the certificate which  
31 would entitle the prime contractor to the deduction. If the  
32 purchaser cannot establish the accuracy and completeness of the  
33 information, the purchaser is liable in an amount equal to any  
34 tax, penalty and interest which the prime contractor would have  
35 been required to pay under article 1 of this chapter if the  
36 prime contractor had not complied with paragraph 1 of this  
37 subsection. Payment of the amount under this paragraph exempts  
38 the purchaser from liability for any tax imposed under article 4  
39 of this chapter. The amount shall be treated as a transaction  
40 privilege tax to the purchaser and as tax revenues collected  
41 from the prime contractor in order to designate the distribution  
42 base for purposes of section 42-5029.

43 D. Subcontractors or others who perform services in  
44 respect to any improvement, building, highway, road, railroad,  
45 excavation, manufactured building or other structure, project,

1 development or improvement are not subject to tax if they can  
2 demonstrate that the job was within the control of a prime  
3 contractor or contractors or a dealership of manufactured  
4 buildings and that the prime contractor or dealership is liable  
5 for the tax on the gross income, gross proceeds of sales or  
6 gross receipts attributable to the job and from which the  
7 subcontractors or others were paid.

8 E. Amounts received by a contractor for a project are  
9 excluded from the contractor's gross proceeds of sales or gross  
10 income derived from the business if the person who hired the  
11 contractor executes and provides a certificate to the contractor  
12 stating that the person providing the certificate is a prime  
13 contractor and is liable for the tax under article 1 of this  
14 chapter. The department shall prescribe the form of the  
15 certificate. If the contractor has reason to believe that the  
16 information contained on the certificate is erroneous or  
17 incomplete, the department may disregard the certificate. If  
18 the person who provides the certificate is not liable for the  
19 tax as a prime contractor, that person is nevertheless deemed to  
20 be the prime contractor in lieu of the contractor and is subject  
21 to the tax under this section on the gross receipts or gross  
22 proceeds received by the contractor.

23 F. Every person engaging or continuing in this state in  
24 the business of prime contracting or dealership of manufactured  
25 buildings shall present to the purchaser of such prime  
26 contracting or manufactured building a written receipt of the  
27 gross income or gross proceeds of sales from such activity and  
28 shall separately state the taxes to be paid pursuant to this  
29 section.

30 G. For the purposes of section 42-5032.01, the department  
31 shall separately account for revenues collected under the prime  
32 contracting classification from any prime contractor engaged in  
33 the preparation or construction of a multipurpose facility, and  
34 related infrastructure, that is owned, operated or leased by the  
35 tourism and sports authority pursuant to title 5, chapter 8.

36 H. **THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY**  
37 **MAJORITY VOTE, EXTENDS THIS DATE,** the gross proceeds of sales or  
38 gross income derived from a contract for lawn maintenance  
39 services are not subject to tax under this section if the  
40 contract does not include landscaping activities. Lawn  
41 maintenance service is a service pursuant to section 42-5061,  
42 subsection A, paragraph 1, and includes lawn mowing and edging,  
43 weeding, repairing sprinkler heads or drip irrigation heads,  
44 seasonal replacement of flowers, refreshing gravel, lawn  
45 de-thatching, seeding winter lawns, leaf and debris collection

1 and removal, tree or shrub pruning or clipping, garden and  
2 gravel raking and applying pesticides, as defined in section  
3 3-361, and fertilizer materials, as defined in section 3-262.

4 I. The gross proceeds of sales or gross income derived  
5 from landscaping activities are subject to tax under this  
6 section. Landscaping includes installing lawns, grading or  
7 leveling ground, installing gravel or boulders, planting trees  
8 and other plants, felling trees, removing or mulching tree  
9 stumps, removing other imbedded plants, building or modifying  
10 irrigation berms, repairing sprinkler or watering systems,  
11 installing railroad ties and installing underground sprinkler or  
12 watering systems.

13 J. THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY  
14 MAJORITY VOTE, EXTENDS THIS DATE, the portion of gross proceeds  
15 of sales or gross income attributable to the actual direct costs  
16 of providing architectural or engineering services that are  
17 incorporated in a contract is not subject to tax under this  
18 section. For the purposes of this subsection, "direct costs"  
19 means the portion of the actual costs that are directly expended  
20 in providing architectural or engineering services.

21 K. THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY  
22 MAJORITY VOTE, EXTENDS THIS DATE, operating a landfill or a  
23 solid waste disposal facility is not subject to taxation under  
24 this section, including filling, compacting and creating vehicle  
25 access to and from cell sites within the landfill. Constructing  
26 roads to a landfill or solid waste disposal facility and  
27 constructing cells within a landfill or solid waste disposal  
28 facility may be deemed prime contracting under this section.

29 L. The following apply to manufactured buildings:

30 1. For sales in this state where the dealership of  
31 manufactured buildings contracts to deliver the building to a  
32 setup site or to perform the setup in this state, the taxable  
33 situs is the setup site.

34 2. For sales in this state where the dealership of  
35 manufactured buildings does not contract to deliver the building  
36 to a setup site or does not perform the setup, the taxable situs  
37 is the location of the dealership where the building is  
38 delivered to the buyer.

39 3. For sales in this state where the dealership of  
40 manufactured buildings contracts to deliver the building to a  
41 setup site that is outside this state, the situs is outside this  
42 state and the transaction is excluded from tax.

43 M. THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY  
44 MAJORITY VOTE, EXTENDS THIS DATE, the gross proceeds of sales or  
45 gross income attributable to a separate, written design phase

1 services contract or professional services contract, executed  
2 before modification begins, is not subject to tax under this  
3 section, regardless of whether the services are provided  
4 sequential to or concurrent with prime contracting activities  
5 that are subject to tax under this section. This subsection  
6 does not include the gross proceeds of sales or gross income  
7 attributable to construction phase services. For the purposes  
8 of this subsection:

9 1. "Construction phase services" means services for the  
10 execution and completion of any modification, including the  
11 following:

12 (a) Administration or supervision of any modification  
13 performed on the project, including team management and  
14 coordination, scheduling, cost controls, submittal process  
15 management, field management, safety program, close-out process  
16 and warranty period services.

17 (b) Administration or supervision of any modification  
18 performed pursuant to a punch list. For the purposes of this  
19 subdivision, "punch list" means minor items of modification work  
20 performed after substantial completion and before final  
21 completion of the project.

22 (c) Administration or supervision of any modification  
23 performed pursuant to change orders. For the purposes of this  
24 subdivision, "change order" means a written instrument issued  
25 after execution of a contract for modification work, providing  
26 for all of the following:

27 (i) The scope of a change in the modification work,  
28 contract for modification work or other contract documents.

29 (ii) The amount of an adjustment, if any, to the  
30 guaranteed maximum price as set in the contract for modification  
31 work. For the purposes of this item, "guaranteed maximum price"  
32 means the amount guaranteed to be the maximum amount due to a  
33 prime contractor for the performance of all modification work  
34 for the project.

35 (iii) The extent of an adjustment, if any, to the  
36 contract time of performance set forth in the contract.

37 (d) Administration or supervision of any modification  
38 performed pursuant to change directives. For the purposes of  
39 this subdivision, "change directive" means a written order  
40 directing a change in modification work before agreement on an  
41 adjustment of the guaranteed maximum price or contract time.

42 (e) Inspection to determine the dates of substantial  
43 completion or final completion.

44 (f) Preparation of any manuals, warranties, as-built  
45 drawings, spares or other items the prime contractor must

1 furnish pursuant to the contract for modification work. For the  
2 purposes of this subdivision, "as-built drawing" means a drawing  
3 that indicates field changes made to adapt to field conditions,  
4 field changes resulting from change orders or buried and  
5 concealed installation of piping, conduit and utility services.

6 (g) Preparation of status reports after modification work  
7 has begun detailing the progress of work performed, including  
8 preparation of any of the following:

9 (i) Master schedule updates.

10 (ii) Modification work cash flow projection updates.

11 (iii) Site reports made on a periodic basis.

12 (iv) Identification of discrepancies, conflicts or  
13 ambiguities in modification work documents that require  
14 resolution.

15 (v) Identification of any health and safety issues that  
16 have arisen in connection with the modification work.

17 (h) Preparation of daily logs of modification work,  
18 including documentation of personnel, weather conditions and  
19 on-site occurrences.

20 (i) Preparation of any submittals or shop drawings used  
21 by the prime contractor to illustrate details of the  
22 modification work performed.

23 (j) Administration or supervision of any other activities  
24 for which a prime contractor receives a certificate for payment  
25 or certificate for final payment based on the progress of  
26 modification work performed on the project.

27 2. "Design phase services" means services for developing  
28 and completing a design for a project that are not construction  
29 phase services, including the following:

30 (a) Evaluating surveys, reports, test results or any  
31 other information on-site conditions for the project, including  
32 physical characteristics, legal limitations and utility  
33 locations for the site.

34 (b) Evaluating any criteria or programming objectives for  
35 the project to ascertain requirements for the project, such as  
36 physical requirements affecting cost or projected utilization of  
37 the project.

38 (c) Preparing drawings and specifications for  
39 architectural program documents, schematic design documents,  
40 design development documents, modification work documents or  
41 documents that identify the scope of or materials for the  
42 project.

43 (d) Preparing an initial schedule for the project,  
44 excluding the preparation of updates to the master schedule  
45 after modification work has begun.

1 (e) Preparing preliminary estimates of costs of  
2 modification work before completion of the final design of the  
3 project, including an estimate or schedule of values for any of  
4 the following:

5 (i) Labor, materials, machinery and equipment, tools,  
6 water, heat, utilities, transportation and other facilities and  
7 services used in the execution and completion of modification  
8 work, regardless of whether they are temporary or permanent or  
9 whether they are incorporated in the modifications.

10 (ii) The cost of labor and materials to be furnished by  
11 the owner of the real property.

12 (iii) The cost of any equipment of the owner of the real  
13 property to be assigned by the owner to the prime contractor.

14 (iv) The cost of any labor for installation of equipment  
15 separately provided by the owner of the real property that has  
16 been designed, specified, selected or specifically provided for  
17 in any design document for the project.

18 (v) Any fee paid by the owner of the real property to the  
19 prime contractor pursuant to the contract for modification work.

20 (vi) Any bond and insurance premiums.

21 (vii) Any applicable taxes.

22 (viii) Any contingency fees for the prime contractor that  
23 may be used before final completion of the project.

24 (f) Reviewing and evaluating cost estimates and project  
25 documents to prepare recommendations on site use, site  
26 improvements, selection of materials, building systems and  
27 equipment, modification feasibility, availability of materials  
28 and labor, local modification activity as related to schedules  
29 and time requirements for modification work.

30 (g) Preparing the plan and procedures for selection of  
31 subcontractors, including any prequalification of subcontractor  
32 candidates.

33 3. "Professional services" means architect services,  
34 assayer services, engineer services, geologist services, land  
35 surveying services or landscape architect services that are  
36 within the scope of those services as provided in title 32,  
37 chapter 1 and for which gross proceeds of sales or gross income  
38 has not otherwise been deducted under subsection J of this  
39 section.

40 N. Notwithstanding subsection 0, paragraph 8 of this  
41 section, a person owning real property who enters into a  
42 contract for sale of the real property, who is responsible to  
43 the new owner of the property for modifications made to the  
44 property in the period subsequent to the transfer of title and  
45 who receives a consideration for the modifications is considered

1 a prime contractor solely for purposes of taxing the gross  
2 proceeds of sale or gross income received for the modifications  
3 made subsequent to the transfer of title. The original owner's  
4 gross proceeds of sale or gross income received for the  
5 modifications shall be determined according to the following  
6 methodology:

7 1. If any part of the contract for sale of the property  
8 specifies amounts to be paid to the original owner for the  
9 modifications to be made in the period subsequent to the  
10 transfer of title, the amounts are included in the original  
11 owner's gross proceeds of sale or gross income under this  
12 section. Proceeds from the sale of the property that are  
13 received after transfer of title and that are unrelated to the  
14 modifications made subsequent to the transfer of title are not  
15 considered gross proceeds of sale or gross income from the  
16 modifications.

17 2. If the original owner enters into an agreement  
18 separate from the contract for sale of the real property  
19 providing for amounts to be paid to the original owner for the  
20 modifications to be made in the period subsequent to the  
21 transfer of title to the property, the amounts are included in  
22 the original owner's gross proceeds of sale or gross income  
23 received for the modifications made subsequent to the transfer  
24 of title.

25 3. If the original owner is responsible to the new owner  
26 for modifications made to the property in the period subsequent  
27 to the transfer of title and derives any gross proceeds of sale  
28 or gross income from the project subsequent to the transfer of  
29 title other than a delayed disbursement from escrow unrelated to  
30 the modifications, it is presumed that the amounts are received  
31 for the modifications made subsequent to the transfer of title  
32 unless the contrary is established by the owner through its  
33 books, records and papers kept in the regular course of  
34 business.

35 4. The tax base of the original owner is computed in the  
36 same manner as a prime contractor under this section.

37 0. For the purposes of this section:

38 1. "Contracting" means engaging in business as a  
39 contractor.

40 2. "Contractor" is synonymous with the term "builder" and  
41 means any person or organization that undertakes to or offers to  
42 undertake to, or purports to have the capacity to undertake to,  
43 or submits a bid to, or does personally or by or through others,  
44 modify any building, highway, road, railroad, excavation,  
45 manufactured building or other structure, project, development

1 or improvement, or to do any part of such a project, including  
2 the erection of scaffolding or other structure or works in  
3 connection with such a project, and includes subcontractors and  
4 specialty contractors. For all purposes of taxation or  
5 deduction, this definition shall govern without regard to  
6 whether or not such contractor is acting in fulfillment of a  
7 contract.

8 3. "Dealership of manufactured buildings" means a dealer  
9 who either:

10 (a) Is licensed pursuant to title 41, chapter 16 and who  
11 sells manufactured buildings to the final consumer.

12 (b) Supervises, performs or coordinates the excavation  
13 and completion of site improvements, setup or moving of a  
14 manufactured building including the contracting, if any, with  
15 any subcontractor or specialty contractor for the completion of  
16 the contract.

17 4. "Manufactured building" means a manufactured home,  
18 mobile home or factory-built building, as defined in section  
19 41-2142.

20 5. "Modification" means construction, alteration, repair,  
21 addition, subtraction, improvement, movement, wreckage or  
22 demolition.

23 6. "Modify" means to construct, alter, repair, add to,  
24 subtract from, improve, move, wreck or demolish.

25 7. "Prime contracting" means engaging in business as a  
26 prime contractor.

27 8. "Prime contractor" means a contractor who supervises,  
28 performs or coordinates the modification of any building,  
29 highway, road, railroad, excavation, manufactured building or  
30 other structure, project, development or improvement including  
31 the contracting, if any, with any subcontractors or specialty  
32 contractors and who is responsible for the completion of the  
33 contract. Except as provided in subsections E and N of this  
34 section, a person who owns real property, who engages one or  
35 more contractors to modify that real property and who does not  
36 itself modify that real property is not a prime contractor  
37 within the meaning of this paragraph regardless of the existence  
38 of a contract for sale or the subsequent sale of that real  
39 property.

40 9. "Sale of a used manufactured building" does not  
41 include a lease of a used manufactured building.

1           Sec. 16. Section 42-5102, Arizona Revised Statutes, is  
2 amended to read:

3           42-5102. Tax exemption for sales of food; nonexempt sales

4           A. **THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY**  
5 **MAJORITY VOTE, EXTENDS THIS DATE**, except for the gross proceeds  
6 of sales or gross income from the sale of food for consumption  
7 on the premises, the taxes imposed by this chapter do not apply  
8 to the gross proceeds of sales or gross income from sales of  
9 food by any of the following:

10           1. A retailer who conducts an eligible grocery business.

11           2. A retailer who conducts a business whose primary  
12 business is not the sale of food but who sells food which is  
13 displayed, packaged and sold in a similar manner as an eligible  
14 grocery business.

15           3. A retailer who sells food and does not provide or make  
16 available any facilities for the consumption of food on the  
17 premises.

18           4. A retailer who conducts a delicatessen business either  
19 from a counter which is separate from the place and cash  
20 register where taxable sales are made or from a counter which  
21 has two cash registers which are used to record taxable and tax  
22 exempt sales or a retailer who conducts a delicatessen business  
23 and who uses a cash register which has at least two tax  
24 computing keys which are used to record taxable and tax exempt  
25 sales.

26           5. A retailer who is a street or sidewalk vendor and who  
27 uses a pushcart, mobile facility, motor vehicle or other such  
28 conveyance.

29           6. Vending machines and other types of automatic  
30 retailers.

31           B. **THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY**  
32 **MAJORITY VOTE, EXTENDS THIS DATE**, the taxes imposed by this  
33 chapter do not apply to the gross proceeds of sales or gross  
34 income from sales of food by a state university or community  
35 college or its designee on its campuses to students using a  
36 validated meal ticket or to patients purchasing or consuming  
37 food at the Arizona health sciences center.

38           C. **THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY**  
39 **MAJORITY VOTE, EXTENDS THIS DATE**, the taxes imposed by this  
40 chapter do not apply to the gross proceeds of sales or gross  
41 income from sales of food by a retailer to:

42           1. A regularly organized private or parochial school that  
43 offers an educational program for grade twelve or under which  
44 may be attended in substitution for a public school pursuant to  
45 section 15-802.

1           2. A child care facility that is licensed under section  
2 36-882 or a child care group home certified under section  
3 36-897.01.

4           3. A facility which provides on a regular basis care and  
5 supervision of persons who, because of age or a mental or  
6 physical condition, are incapable of caring for themselves and  
7 where they are unaccompanied by their custodians or guardians  
8 for periods of less than twenty-four hours a day.

9           4. An organization which is tax exempt under section  
10 501(c)(3) of the internal revenue code and which provides the  
11 articles to persons with a nominal charge or without a monetary  
12 charge.

13           5. A prison, jail or other institution under the  
14 jurisdiction of the state department of corrections, the  
15 department of public safety, the department of juvenile  
16 corrections or a county sheriff for consumption on the premises.

17           Sec. 17. Section 42-5159, Arizona Revised Statutes, is  
18 amended to read:

19           42-5159. Exemptions

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

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

26           2. Tangible personal property the sale or use of which  
27 has already been subjected to an excise tax at a rate equal to  
28 or exceeding the tax imposed by this article under the laws of  
29 another state of the United States. If the excise tax imposed by  
30 the other state is at a rate less than the tax imposed by this  
31 article, the tax imposed by this article is reduced by the  
32 amount of the tax already imposed by the other state.

33           3. Tangible personal property, the storage, use or  
34 consumption of which the constitution or laws of the United  
35 States prohibit this state from taxing or to the extent that the  
36 rate or imposition of tax is unconstitutional under the laws of  
37 the United States.

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

42           5. Motor vehicle fuel and use fuel, the sales,  
43 distribution or use of which in this state is subject to the tax  
44 imposed under title 28, chapter 16, article 1, use fuel which is  
45 sold to or used by a person holding a valid single trip use fuel

1 tax permit issued under section 28-5739, aviation fuel, the  
2 sales, distribution or use of which in this state is subject to  
3 the tax imposed under section 28-8344, and jet fuel, the sales,  
4 distribution or use of which in this state is subject to the tax  
5 imposed under article 8 of this chapter.

6 6. Tangible personal property brought into this state by  
7 an individual who was a nonresident at the time the property was  
8 purchased for storage, use or consumption by the individual if  
9 the first actual use or consumption of the property was outside  
10 this state, unless the property is used in conducting a business  
11 in this state.

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

19 8. Livestock, poultry, supplies, feed, salts, vitamins  
20 and other additives for use or consumption in the businesses of  
21 farming, ranching and feeding livestock or poultry, not  
22 including fertilizers, herbicides and insecticides. For the  
23 purposes of this paragraph, "poultry" includes ratites.

24 9. Seeds, seedlings, roots, bulbs, cuttings and other  
25 propagative material for use in commercially producing  
26 agricultural, horticultural, viticultural or floricultural crops  
27 in this state.

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

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

37 12. Materials that are purchased by or for publicly funded  
38 libraries including school district libraries, charter school  
39 libraries, community college libraries, state university  
40 libraries or federal, state, county or municipal libraries for  
41 use by the public as follows:

42 (a) Printed or photographic materials, beginning August  
43 7, 1985.

44 (b) Electronic or digital media materials, beginning July  
45 17, 1994.

- 1           13. Tangible personal property purchased by:  
2           (a) A hospital organized and operated exclusively for  
3 charitable purposes, no part of the net earnings of which inures  
4 to the benefit of any private shareholder or individual.  
5           (b) A hospital operated by this state or a political  
6 subdivision of this state.  
7           (c) A licensed nursing care institution or a licensed  
8 residential care institution or a residential care facility  
9 operated in conjunction with a licensed nursing care institution  
10 or a licensed kidney dialysis center, which provides medical  
11 services, nursing services or health related services and is not  
12 used or held for profit.  
13           (d) A qualifying health care organization, as defined in  
14 section 42-5001, if the tangible personal property is used by  
15 the organization solely to provide health and medical related  
16 educational and charitable services.  
17           (e) A qualifying health care organization as defined in  
18 section 42-5001 if the organization is dedicated to providing  
19 educational, therapeutic, rehabilitative and family medical  
20 education training for blind, visually impaired and  
21 multihandicapped children from the time of birth to age  
22 twenty-one.  
23           (f) A nonprofit charitable organization that has  
24 qualified under section 501(c)(3) of the United States internal  
25 revenue code and that engages in and uses such property  
26 exclusively in programs for mentally or physically handicapped  
27 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  
30 this chapter by reason of being engaged in business classified  
31 under the prime contracting classification under section  
32 42-5075, or a subcontractor working under the control of a prime  
33 contractor, if the tangible personal property is any of the  
34 following:  
35           (i) Incorporated or fabricated by the contractor into a  
36 structure, project, development or improvement in fulfillment of  
37 a contract.  
38           (ii) Used in environmental response or remediation  
39 activities under section 42-5075, subsection B, paragraph 6.  
40           (iii) Incorporated or fabricated by the person into any  
41 lake facility development in a commercial enhancement reuse  
42 district under conditions prescribed for the deduction allowed  
43 by section 42-5075, subsection B, paragraph 8.  
44           (h) A nonprofit charitable organization that has  
45 qualified under section 501(c)(3) of the internal revenue code

1 if the property is purchased from the parent or an affiliate  
2 organization that is located outside this state.

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

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

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

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

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

30 15. Tangible personal property sold by:

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

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

41 (c) A nonprofit organization that is exempt from taxation  
42 under section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or  
43 501(c)(8) of the internal revenue code if the organization  
44 sponsors or operates a rodeo featuring primarily farm and ranch

1 animals and no part of the organization's net earnings inures to  
2 the benefit of any private shareholder or individual.

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

7 17. Prosthetic appliances, as defined in section 23-501,  
8 prescribed or recommended by a person who is licensed,  
9 registered or otherwise professionally credentialed as a  
10 physician, dentist, podiatrist, chiropractor, naturopath,  
11 homeopath, nurse or optometrist.

12 18. Prescription eyeglasses and contact lenses.

13 19. Insulin, insulin syringes and glucose test strips.

14 20. Hearing aids as defined in section 36-1901.

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

23 22. Food, as provided in and subject to the conditions of  
24 article 3 of this chapter and section 42-5074.

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

31 24. Food and drink provided without monetary charge by a  
32 taxpayer which is subject to section 42-5074 to its employees  
33 for their own consumption on the premises during the employees'  
34 hours of employment.

35 25. Tangible personal property that is used or consumed in  
36 a business subject to section 42-5074 for human food, drink or  
37 condiment, whether simple, mixed or compounded.

38 26. Food, drink or condiment and accessory tangible  
39 personal property that are acquired for use by or provided to a  
40 school district or charter school if they are to be either  
41 served or prepared and served to persons for consumption on the  
42 premises of a public school in the school district or on the  
43 premises of the charter school during school hours.

44 27. Lottery tickets or shares purchased pursuant to title  
45 5, chapter 5, article 1.

1           28. Textbooks, sold by a bookstore, that are required by  
2 any state university or community college.

3           29. Magazines, other periodicals or other publications  
4 produced by this state to encourage tourist travel.

5           30. Paper machine clothing, such as forming fabrics and  
6 dryer felts, purchased by a paper manufacturer and directly used  
7 or consumed in paper manufacturing.

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

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

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

27           (b) Public educational institutions.

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

31           33. Natural gas or liquefied petroleum gas used to propel  
32 a motor vehicle.

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

39           35. Liquid, solid or gaseous chemicals used in  
40 manufacturing, processing, fabricating, mining, refining,  
41 metallurgical operations, research and development and,  
42 beginning on January 1, 1999, printing, if using or consuming  
43 the chemicals, alone or as part of an integrated system of  
44 chemicals, involves direct contact with the materials from which  
45 the product is produced for the purpose of causing or permitting

1 a chemical or physical change to occur in the materials as part  
2 of the production process. This paragraph does not include  
3 chemicals that are used or consumed in activities such as  
4 packaging, storage or transportation but does not affect any  
5 exemption for such chemicals that is otherwise provided by this  
6 section. For the purposes of this paragraph, "printing" means a  
7 commercial printing operation and includes job printing,  
8 engraving, embossing, copying and bookbinding.

9 36. Food, drink and condiment purchased for consumption  
10 within the premises of any prison, jail or other institution  
11 under the jurisdiction of the state department of corrections,  
12 the department of public safety, the department of juvenile  
13 corrections or a county sheriff.

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

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

22 39. Overhead materials or other tangible personal property  
23 that is used in performing a contract between the United States  
24 government and a manufacturer, modifier, assembler or repairer,  
25 including property used in performing a subcontract with a  
26 government contractor who is a manufacturer, modifier, assembler  
27 or repairer, to which title passes to the government under the  
28 terms of the contract or subcontract. For the purposes of this  
29 paragraph:

30 (a) "Overhead materials" means tangible personal  
31 property, the gross proceeds of sales or gross income derived  
32 from which would otherwise be included in the retail  
33 classification, and which are used or consumed in the  
34 performance of a contract, the cost of which is charged to an  
35 overhead expense account and allocated to various contracts  
36 based upon generally accepted accounting principles and  
37 consistent with government contract accounting standards.

38 (b) "Subcontract" means an agreement between a contractor  
39 and any person who is not an employee of the contractor for  
40 furnishing of supplies or services that, in whole or in part,  
41 are necessary to the performance of one or more government  
42 contracts, or under which any portion of the contractor's  
43 obligation under one or more government contracts is performed,  
44 undertaken or assumed, and that includes provisions causing  
45 title to overhead materials or other tangible personal property

1 used in the performance of the subcontract to pass to the  
2 government or that includes provisions incorporating such title  
3 passing clauses in a government contract into the subcontract.

4 40. Through December 31, 1994, tangible personal property  
5 sold pursuant to a personal property liquidation transaction, as  
6 defined in section 42-5061. From and after December 31, 1994,  
7 tangible personal property sold pursuant to a personal property  
8 liquidation transaction, as defined in section 42-5061, if the  
9 gross proceeds of the sales were included in the measure of the  
10 tax imposed by article 1 of this chapter or if the personal  
11 property liquidation was a casual activity or transaction.

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

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

19 43. Tangible personal property purchased by a commercial  
20 airline and consisting of food, beverages and condiments and  
21 accessories used for serving the food and beverages, if those  
22 items are to be provided without additional charge to passengers  
23 for consumption in flight. For the purposes of this paragraph,  
24 "commercial airline" means a person holding a federal  
25 certificate of public convenience and necessity or foreign air  
26 carrier permit for air transportation to transport persons,  
27 property or United States mail in intrastate, interstate or  
28 foreign commerce.

29 44. Alternative fuel vehicles if the vehicle was  
30 manufactured as a diesel fuel vehicle and converted to operate  
31 on alternative fuel and equipment that is installed in a  
32 conventional diesel fuel motor vehicle to convert the vehicle to  
33 operate on an alternative fuel, as defined in section 1-215.

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

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

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

42 46. Tangible personal property that is excluded, exempt or  
43 deductible from transaction privilege tax pursuant to section  
44 42-5063.

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

5           48. Tangible personal property sold by a nonprofit  
6 organization that is exempt from taxation under section  
7 501(c)(6) of the internal revenue code if the organization  
8 produces, organizes or promotes cultural or civic related  
9 festivals or events and no part of the organization's net  
10 earnings inures to the benefit of any private shareholder or  
11 individual.

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

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

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

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

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

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

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

1 underground, surface and open pit operations for extracting ores  
2 and minerals.

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

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

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

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

24 7. Aircraft, navigational and communication instruments  
25 and other accessories and related equipment sold to:

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

34 (b) Any foreign government, or sold to persons who are  
35 not residents of this state and who will not use such property  
36 in this state other than in removing such property from this  
37 state.

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

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

1           10. Machinery or equipment used directly to drill for oil  
2 or gas or used directly in the process of extracting oil or gas  
3 from the earth for commercial purposes.

4           11. Buses or other urban mass transit vehicles which are  
5 used directly to transport persons or property for hire or  
6 pursuant to a governmentally adopted and controlled urban mass  
7 transportation program and which are sold to bus companies  
8 holding a federal certificate of convenience and necessity or  
9 operated by any city, town or other governmental entity or by  
10 any person contracting with such governmental entity as part of  
11 a governmentally adopted and controlled program to provide urban  
12 mass transportation.

13           12. Groundwater measuring devices required under section  
14 45-604.

15           13. New machinery and equipment consisting of tractors,  
16 tractor-drawn implements, self-powered implements, machinery and  
17 equipment necessary for extracting milk, and machinery and  
18 equipment necessary for cooling milk and livestock, and drip  
19 irrigation lines not already exempt under paragraph 6 of this  
20 subsection and that are used for commercial production of  
21 agricultural, horticultural, viticultural and floricultural  
22 crops and products in this state. For the purposes of this  
23 paragraph:

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

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

29           14. Machinery or equipment used in research and  
30 development. For the purposes of this paragraph, "research and  
31 development" means basic and applied research in the sciences  
32 and engineering, and designing, developing or testing  
33 prototypes, processes or new products, including research and  
34 development of computer software that is embedded in or an  
35 integral part of the prototype or new product or that is  
36 required for machinery or equipment otherwise exempt under this  
37 section to function effectively. Research and development do  
38 not include manufacturing quality control, routine consumer  
39 product testing, market research, sales promotion, sales  
40 service, research in social sciences or psychology, computer  
41 software research that is not included in the definition of  
42 research and development, or other nontechnological activities  
43 or technical services.

44           15. Machinery and equipment that are purchased by or on  
45 behalf of the owners of a soundstage complex and primarily used

1 for motion picture, multimedia or interactive video production  
2 in the complex. This paragraph applies only if the initial  
3 construction of the soundstage complex begins after June 30,  
4 1996 and before January 1, 2002 and the machinery and equipment  
5 are purchased before the expiration of five years after the  
6 start of initial construction. For the purposes of this  
7 paragraph:

8 (a) "Motion picture, multimedia or interactive video  
9 production" includes products for theatrical and television  
10 release, educational presentations, electronic retailing,  
11 documentaries, music videos, industrial films, CD-ROM, video  
12 game production, commercial advertising and television episode  
13 production and other genres that are introduced through  
14 developing technology.

15 (b) "Soundstage complex" means a facility of multiple  
16 stages including production offices, construction shops and  
17 related areas, prop and costume shops, storage areas, parking  
18 for production vehicles and areas that are leased to businesses  
19 that complement the production needs and orientation of the  
20 overall facility.

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

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

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

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

35 (ii) Over two-thirds of the transmissions, measured in  
36 megabytes, transmitted by or on behalf of those direct broadcast  
37 television or data transmission services during the test period  
38 were transmitted by the facility to or on behalf of those  
39 services.

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

1           17. Clean rooms that are used for manufacturing,  
2 processing, fabrication or research and development, as defined  
3 in paragraph 14 of this subsection, of semiconductor products.  
4 For the purposes of this paragraph, "clean room" means all  
5 property that comprises or creates an environment where  
6 humidity, temperature, particulate matter and contamination are  
7 precisely controlled within specified parameters, without regard  
8 to whether the property is actually contained within that  
9 environment or whether any of the property is affixed to or  
10 incorporated into real property. Clean room:

11           (a) Includes the integrated systems, fixtures, piping,  
12 movable partitions, lighting and all property that is necessary  
13 or adapted to reduce contamination or to control airflow,  
14 temperature, humidity, chemical purity or other environmental  
15 conditions or manufacturing tolerances, as well as the  
16 production machinery and equipment operating in conjunction with  
17 the clean room environment.

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

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

26           19. Machinery or equipment, including related structural  
27 components, that is employed in connection with manufacturing,  
28 processing, fabricating, job printing, refining, mining, natural  
29 gas pipelines, metallurgical operations, telecommunications,  
30 producing or transmitting electricity or research and  
31 development and that is used directly to meet or exceed rules or  
32 regulations adopted by the federal energy regulatory commission,  
33 the United States environmental protection agency, the United  
34 States nuclear regulatory commission, the Arizona department of  
35 environmental quality or a political subdivision of this state  
36 to prevent, monitor, control or reduce land, water or air  
37 pollution.

38           20. Machinery and equipment that are used in the  
39 commercial production of livestock, livestock products or  
40 agricultural, horticultural, viticultural or floricultural crops  
41 or products in this state and that are used directly and  
42 primarily to prevent, monitor, control or reduce air, water or  
43 land pollution.

44           21. Machinery or equipment that enables a television  
45 station to originate and broadcast or to receive and broadcast

1 digital television signals and that was purchased to facilitate  
2 compliance with the telecommunications act of 1996  
3 (P.L. 104-104; 110 Stat. 56; 47 United States Code section 336)  
4 and the federal communications commission order issued April 21,  
5 1997 (47 Code of Federal Regulations part 73). This paragraph  
6 does not exempt any of the following:

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

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

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

15 22. Qualifying equipment that is purchased from and after  
16 June 30, 2004 through June 30, 2014 by a qualified business  
17 under section 41-1516 for harvesting or the initial processing  
18 of qualifying forest products removed from qualifying projects  
19 as defined in section 41-1516. To qualify for this exemption,  
20 the qualified business must obtain and present its certification  
21 from the Arizona commerce authority at the time of purchase.

22 23. Machinery, equipment and other tangible personal  
23 property used directly in motion picture production by a motion  
24 picture production company. To qualify for this exemption, at  
25 the time of purchase, the motion picture production company must  
26 present to the retailer its certificate that is issued pursuant  
27 to section 42-5009, subsection H and that establishes its  
28 qualification for the exemption.

29 C. The exemptions provided by subsection B of this  
30 section do not include:

31 1. Expendable materials. For the purposes of this  
32 paragraph, expendable materials do not include any of the  
33 categories of tangible personal property specified in subsection  
34 B of this section regardless of the cost or useful life of that  
35 property.

36 2. Janitorial equipment and hand tools.

37 3. Office equipment, furniture and supplies.

38 4. Tangible personal property used in selling or  
39 distributing activities, other than the telecommunications  
40 transmissions described in subsection B, paragraph 16 of this  
41 section.

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

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

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

5           D. The following shall be deducted in computing the  
6 purchase price of electricity by a retail electric customer from  
7 a utility business:

8           1. Revenues received from sales of ancillary services,  
9 electric distribution services, electric generation services,  
10 electric transmission services and other services related to  
11 providing electricity to a retail electric customer who is  
12 located outside this state for use outside this state if the  
13 electricity is delivered to a point of sale outside this state.

14           2. Revenues received from providing electricity,  
15 including ancillary services, electric distribution services,  
16 electric generation services, electric transmission services and  
17 other services related to providing electricity with respect to  
18 which the transaction privilege tax imposed under section  
19 42-5063 has been paid.

20           E. The tax levied by this article does not apply to:

21           1. The storage, use or consumption in Arizona of  
22 machinery, equipment, materials or other tangible personal  
23 property if used directly and predominantly to construct a  
24 qualified environmental technology manufacturing, producing or  
25 processing facility, as described in section 41-1514.02. This  
26 paragraph applies for ten full consecutive calendar or fiscal  
27 years after the start of initial construction.

28           2. The purchase of electricity by a qualified  
29 environmental technology manufacturer, producer or processor as  
30 defined in section 41-1514.02 that is used directly in  
31 environmental technology manufacturing, producing or processing.  
32 This paragraph shall apply for twenty full consecutive calendar  
33 or fiscal years from the date the first paper manufacturing  
34 machine is placed in service. In the case of an environmental  
35 technology manufacturer, producer or processor who does not  
36 manufacture paper, the time period shall begin with the date the  
37 first manufacturing, processing or production equipment is  
38 placed in service.

39           3. The purchase of solar energy devices from a retailer  
40 that is registered with the department as a solar energy  
41 retailer or a solar energy contractor.

42           F. The following shall be deducted in computing the  
43 purchase price of electricity by a retail electric customer from  
44 a utility business:



1 specific review year shall be the fifth full calendar year  
2 following the date the credit is enacted.

3 2. A SPECIFIC REPEAL DATE FOR THE TAX CREDIT. THE REPEAL  
4 DATE SHALL BE FROM AND AFTER DECEMBER 31 OF THE SEVENTH FULL  
5 CALENDAR YEAR FOLLOWING THE DATE THE CREDIT IS ENACTED. THE  
6 REQUIRED REPEAL DOES NOT AFFECT THE CARRYFORWARD OF ANY TAX  
7 CREDIT TO WHICH A TAXPAYER IS ENTITLED. A TAXPAYER MAY CONTINUE  
8 TO APPLY THE AMOUNTS CARRIED FORWARD TO SUBSEQUENT YEARS' INCOME  
9 TAX LIABILITIES AS PROVIDED BY THE CREDIT.

10 ~~2-~~ 3. A purpose clause that explains the rationale and  
11 objective of the tax credit.

12 Sec. 19. Section 43-1071, Arizona Revised Statutes, is  
13 amended to read:

14 43-1071. Credit for income taxes paid to other states;  
15 definitions

16 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
17 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, AND  
18 subject to the following conditions, residents shall be allowed  
19 a credit against the taxes imposed by this chapter for net  
20 income taxes imposed by and paid to another state or country on  
21 income taxable under this chapter:

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

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

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

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

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

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

44 3. Interest shall be added to and collected as a part of  
45 the tax at the rate determined pursuant to section 42-1123 from

1 the date the credit was allowed under this chapter to the date  
2 of the notice and demand.

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

8 C. The credit against the taxes imposed by this chapter  
9 for net income taxes paid to another state or country shall not  
10 be allowed to any taxpayer or any class of taxpayers if the  
11 allowances of the credit will result in any invalid or illegal  
12 discrimination against another taxpayer or another class of  
13 taxpayers.

14 D. For taxable years beginning on or after January 1,  
15 2002 THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY  
16 MAJORITY VOTE, EXTENDS THIS DATE, and subject to the following  
17 conditions, a resident of this state, who is also considered to  
18 be a resident of another state under the laws of the other  
19 state, is allowed a credit against the taxes imposed by this  
20 title for net income taxes imposed by and paid to that state on  
21 income taxable under this title as follows:

22 1. The credit is allowed only if the other state taxes  
23 the income to the resident of this state and does not allow the  
24 taxpayer a credit against taxes imposed by that state on that  
25 income for taxes paid or payable on that income under this  
26 title.

27 2. The credit is allowed only for the proportion of the  
28 taxes paid to the other state as the income taxable under this  
29 title and also subject to tax in the other state bears to the  
30 entire income on which the taxes paid to the other state are  
31 imposed.

32 3. The credit may not exceed the proportion of the tax  
33 payable under this title as the income taxable under this title  
34 and also subject to tax in the other state bears to the entire  
35 income taxable under this title.

36 4. For the purpose of the credit allowed under this  
37 subsection, "income taxable under this title and also subject to  
38 tax in the other state" means income that would be sourced to  
39 the other state if the other state were imposing its income tax  
40 on the taxpayer as if the taxpayer was a nonresident of that  
41 other state.

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

1 F. For the purposes of this section:  
2 1. "Entire income on which the other state's or country's  
3 tax is imposed" means the other state's or country's income  
4 computed under the equivalent of section 43-1094 but does not  
5 include any exemption allowable under the equivalent of section  
6 43-1023.  
7 2. "Entire income on which the tax is imposed by this  
8 chapter" means Arizona adjusted gross income as defined and  
9 computed under section 43-1001 but does not include any  
10 exemption allowed under section 43-1023.  
11 3. "Income subject to tax in the other state or country  
12 and also taxable under this title" means the portion of income  
13 that is included in entire income on which the tax is imposed  
14 ~~under~~ BY this chapter that is also included in the entire income  
15 on which the other state's or country's tax is imposed. The  
16 taxpayer shall increase or reduce the portion of income that is  
17 included in the entire income on which THE tax is imposed ~~under~~  
18 BY this chapter by any related additions under section 43-1021  
19 and by any related subtractions under section 43-1022. The  
20 taxpayer shall increase or reduce the portion of income that is  
21 included in the entire income on which the other state's or  
22 country's tax is imposed by any related additions and  
23 subtractions under the other state's equivalent of sections  
24 43-1021 and 43-1022, as applicable.  
25 4. "Tax payable under this chapter" means the income tax  
26 imposed by this state on the taxpayer's taxable income as  
27 defined under section 43-1001 minus all of the following:  
28 (a) The reduction amount received under section 16-954,  
29 subsection A.  
30 (b) Any tax credit amount claimed under section 16-954,  
31 subsection B.  
32 (c) Any tax credit amount claimed for the taxable year  
33 under this article but not including the credit amount allowed  
34 under this section.  
35 Sec. 20. Section 43-1072, Arizona Revised Statutes, is  
36 amended to read:  
37 43-1072. Earned credit for property taxes; residents  
38 sixty-five years of age or older; definitions  
39 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
40 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, there  
41 shall be allowed to each resident a credit against the taxes  
42 imposed by this title for a taxable year for property taxes  
43 accrued or rent, or both, paid in that taxable year, in  
44 accordance with subsection B of this section, if all of the  
45 following apply:

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

5           2. Such person paid either property taxes or rent during  
 6 the taxable year.

7           3. Such person either:

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

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

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

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

<u>Household Income</u>	<u>Tax Credit</u>
\$ 0-1,750	\$502
1,751-1,850	479
1,851-1,950	457
1,951-2,050	435
2,051-2,150	412
2,151-2,250	390
2,251-2,350	368
2,351-2,450	345
2,451-2,550	323
2,551-2,650	301
2,651-2,750	279
2,751-2,850	256
2,851-2,950	234
2,951-3,050	212
3,051-3,150	189
3,151-3,250	167
3,251-3,350	145
3,351-3,450	123
3,451-3,550	100
3,551-3,650	78
3,651-3,750	56

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

	<u>Household Income</u>	<u>Tax Credit</u>
1		
2	\$ 0-2,500	\$502
3	2,501-2,650	479
4	2,651-2,800	457
5	2,801-2,950	435
6	2,951-3,100	412
7	3,101-3,250	390
8	3,251-3,400	368
9	3,401-3,550	345
10	3,551-3,700	323
11	3,701-3,850	301
12	3,851-4,000	279
13	4,001-4,150	256
14	4,151-4,300	234
15	4,301-4,450	212
16	4,451-4,600	189
17	4,601-4,750	167
18	4,751-4,900	145
19	4,901-5,050	123
20	5,051-5,200	100
21	5,201-5,350	78
22	5,351-5,500	56

23 C. The owner or lessor of property leased or rented  
 24 solely for residential purposes, on request, shall furnish to  
 25 the tenants of the property a written statement of the  
 26 percentage of rental payments that are attributable to property  
 27 tax for purposes of this section.

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

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

37 2. The amount of any claim otherwise payable for credit  
 38 for property taxes accrued or rent may be applied by the  
 39 department against any liability outstanding on the books of the  
 40 department against the claimant or against the claimant's spouse  
 41 who was a member of the claimant's household in the taxable  
 42 year.

43 E. The department shall make available suitable forms  
 44 with instructions for claimants. Claimants who certify on the  
 45 prescribed form that they have no income tax liability for the

1 taxable year shall not be required to file an individual income  
2 tax return. The claim shall be in such form as the department  
3 may prescribe but shall require the social security numbers of  
4 persons who were allowed to claim as dependents for the taxes  
5 imposed by this title claimants filing pursuant to this section.  
6 The claimant shall also submit a copy of the claimant's property  
7 tax statement or a suitable representation of the statement as  
8 prescribed by the department. The department shall audit a  
9 sufficient number of claims to enforce the provisions of this  
10 chapter.

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

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

19 H. ~~It~~ FOR THE PURPOSES OF this section, unless the  
20 context otherwise requires:

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

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

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

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

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

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

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

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

14           (c) Nontaxable strike benefits.

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

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

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

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

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

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

1           Sec. 21. Section 43-1072.01, Arizona Revised Statutes, is  
2 amended to read:

3           43-1072.01. Credit for increased excise taxes paid

4           A. Subject to the conditions prescribed by this section  
5 and if approved by the qualified electors voting at a statewide  
6 general election, for tax years beginning from and after  
7 December 31, 2000 THROUGH DECEMBER 31, 2019, UNLESS THE  
8 LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit is  
9 allowed against the taxes imposed by this chapter for a taxable  
10 year for a taxpayer who is not claimed as a dependent by any  
11 other taxpayer and whose federal adjusted gross income is:

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

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

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

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

26           D. If the allowable amount of the credit exceeds the  
27 income taxes otherwise due on the claimant's income, the amount  
28 of the claim not used as an offset against income taxes shall be  
29 paid in the same manner as a refund granted under section  
30 42-1118. Refunds made pursuant to this subsection are subject  
31 to setoff under section 42-1122.

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

39           F. For taxable years beginning from and after December  
40 31, 2002, a person who is sentenced for at least sixty days of  
41 the taxable year to the custody of the federal bureau of  
42 prisons, the state department of corrections or a county jail is  
43 not eligible to claim a credit pursuant to this section.

1           Sec. 22. Section 43-1073, Arizona Revised Statutes, is  
2 amended to read:

3           43-1073. Family income tax credit

4           A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
5 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, AND  
6 subject to the conditions prescribed by this section, a credit  
7 is allowed against the taxes imposed by this chapter for a  
8 taxable year for taxpayers whose Arizona adjusted gross income,  
9 plus the amount subtracted for exemptions under section 43-1023,  
10 is:

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

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

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

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

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

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

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

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

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

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

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

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

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

5           Sec. 23. Section 43-1074, Arizona Revised Statutes, is  
6 amended to read:

7           43-1074. Credit for new employment

8           A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
9 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
10 is allowed against the taxes imposed by this title for net  
11 increases in full-time employees hired in qualified employment  
12 positions as certified by the Arizona commerce authority  
13 pursuant to section 41-1525.

14           B. Subject to subsection E of this section, the amount of  
15 the credit is equal to three thousand dollars for each full-time  
16 employee hired for the full taxable year in a qualified  
17 employment position in each of the first three years of  
18 employment, but not more than four hundred employees in any  
19 taxable year.

20           C. To qualify for a credit under this section, the  
21 taxpayer and the employment positions must meet the requirements  
22 prescribed by section 41-1525.

23           D. A credit is allowed for employment in the second and  
24 third year only for qualified employment positions for which a  
25 credit was claimed and allowed in the first year.

26           E. The net increase in the number of qualified employment  
27 positions is the lesser of the total number of filled qualified  
28 employment positions created during the taxable year or the  
29 difference between the average number of full-time employees in  
30 the current tax year and the average number of full-time  
31 employees during the immediately preceding taxable year. The  
32 net increase in the number of qualified employment positions  
33 computed under this subsection may not exceed four hundred  
34 qualified employment positions per taxpayer each year.

35           F. A taxpayer who claims a credit under section 43-1077,  
36 43-1079 or 43-1083.01 shall not claim a credit under this  
37 section with respect to the same employment positions.

38           G. If the allowable tax credit exceeds the income taxes  
39 otherwise due on the claimant's income, or if there are no state  
40 income taxes due on the claimant's income, the amount of the  
41 claim not used as an offset against the income taxes may be  
42 carried forward as a tax credit against subsequent years' income  
43 tax liability for a period not exceeding five taxable years.

44           H. Co-owners of a business, including partners in a  
45 partnership and shareholders of an S corporation, as defined in

1 section 1361 of the internal revenue code, may each claim only  
2 the pro rata share of the credit allowed under this section  
3 based on the ownership interest. The total of the credits  
4 allowed all such owners of the business may not exceed the  
5 amount that would have been allowed for a sole owner of the  
6 business.

7 I. If the business is sold or changes ownership through  
8 reorganization, stock purchase or merger, the new taxpayer may  
9 claim first year credits only for the qualified employment  
10 positions that it created and filled with an eligible employee  
11 after the purchase or reorganization was complete. If a person  
12 purchases a taxpayer that had qualified for first or second year  
13 credits or changes ownership through reorganization, stock  
14 purchase or merger, the new taxpayer may claim the second or  
15 third year credits if it meets other eligibility requirements of  
16 this section. Credits for which a taxpayer qualified before the  
17 changes described in this subsection are terminated and lost at  
18 the time the changes are implemented.

19 J. A failure to timely report and certify to the Arizona  
20 commerce authority the information prescribed by section  
21 41-1525, subsection D, and in the manner prescribed by section  
22 41-1525, subsection E disqualifies the taxpayer from the credit  
23 under this section. The department shall require written  
24 evidence of the timely report to the Arizona commerce authority.

25 K. A tax credit under this section is subject to recovery  
26 for a violation described in section 41-1525, subsection G.

27 Sec. 24. Section 43-1074.01, Arizona Revised Statutes, as  
28 amended by Laws 2011, second special session, chapter 1, section  
29 96, is amended to read:

30 43-1074.01. Credit for increased research activities

31 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
32 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
33 is allowed against the taxes imposed by this title in an amount  
34 determined pursuant to section 41 of the internal revenue code,  
35 except that:

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

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

43 (b) If the excess is over two million five hundred  
44 thousand dollars, the credit is equal to six hundred thousand

1 dollars plus fifteen per cent of any amount exceeding two  
2 million five hundred thousand dollars, except that:

3 (i) For taxable years beginning from and after December  
4 31, 2000 through December 31, 2001, the credit shall not exceed  
5 one million five hundred thousand dollars.

6 (ii) For taxable years beginning from and after December  
7 31, 2001 through December 31, 2002, the credit shall not exceed  
8 two million five hundred thousand dollars.

9 (c) For taxable years beginning from and after December  
10 31, 2011, an additional credit amount is allowed if the taxpayer  
11 made basic research payments during the taxable year to a  
12 university under the jurisdiction of the Arizona board of  
13 regents. The additional credit amount is equal to ten per cent  
14 of the basic research payments that constitute excess expenses  
15 for the taxable year over the base amount. The department shall  
16 not allow credit amounts under this subdivision and section  
17 43-1168, subsection A, paragraph 1, subdivision (d) that exceed,  
18 in the aggregate, a combined total of ten million dollars in any  
19 calendar year. Subject to that limit, on application by the  
20 taxpayer, the department shall preapprove credit amounts under  
21 this subdivision and section 43-1168, subsection A, paragraph 1,  
22 subdivision (d) based on priority placement established by the  
23 date that the taxpayer filed the application. Notwithstanding  
24 subsections B and C of this section, any amount of the  
25 additional credit under this subdivision that exceeds the taxes  
26 otherwise due under this title is not refundable, but may be  
27 carried forward to the next five consecutive taxable years. For  
28 the purposes of this subdivision, "basic research payments" has  
29 the same meaning prescribed by section 41(e) of the internal  
30 revenue code without regard whether the taxpayer is or is not a  
31 corporation.

32 2. Qualified research includes only research conducted in  
33 this state including research conducted at a university in this  
34 state and paid for by the taxpayer.

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

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

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

44 B. Except as provided by subsection C of this section, if  
45 the allowable credit under this section exceeds the taxes

1 otherwise due under this title on the claimant's income, or if  
2 there are no taxes due under this title, the amount of the  
3 credit not used to offset taxes may be carried forward to the  
4 next fifteen consecutive taxable years. The amount of credit  
5 carryforward from taxable years beginning from and after  
6 December 31, 2000 through December 31, 2002 that may be used in  
7 any taxable year may not exceed the taxpayer's tax liability  
8 under this title or five hundred thousand dollars, whichever is  
9 less, minus the credit under this section for the current  
10 taxable year's qualified research expenses. The amount of  
11 credit carryforward from taxable years beginning from and after  
12 December 31, 2002 that may be used in any taxable year may not  
13 exceed the taxpayer's tax liability under this title minus the  
14 credit under this section for the current taxable year's  
15 qualified research expenses. A taxpayer who carries forward any  
16 amount of credit under this subsection may not thereafter claim  
17 a refund of any amount of the credit under subsection C of this  
18 section.

19 C. For taxable years beginning from and after December  
20 31, 2009, if a taxpayer who claims a credit under this section  
21 employs fewer than one hundred fifty persons in the taxpayer's  
22 trade or business and if the allowable credit under this section  
23 exceeds the taxes otherwise due under this title on the  
24 claimant's income, or if there are no taxes due under this  
25 title, in lieu of carrying the excess amount of credit forward  
26 to subsequent taxable years under subsection B of this section,  
27 the taxpayer may elect to receive a refund as follows:

28 1. The taxpayer must apply to the department of commerce  
29 for qualification for the refund pursuant to section 41-1507 and  
30 submit a copy of the department of commerce's certificate of  
31 qualification to the department of revenue with the taxpayer's  
32 income tax return.

33 2. The amount of the refund is limited to seventy-five  
34 per cent of the amount by which the allowable credit under this  
35 section exceeds the taxpayer's tax liability under this title  
36 for the taxable year. The remainder of the excess amount of the  
37 credit is waived.

38 3. The refund shall be paid in the manner prescribed by  
39 section 42-1118.

40 4. The refund is subject to setoff under section 42-1122.

41 5. If the department determines that a credit refunded  
42 pursuant to this subsection is incorrect or invalid, the excess  
43 credit issued may be treated as a tax deficiency pursuant to  
44 section 42-1108.

1 D. A taxpayer that claims a credit for increased research  
2 and development activity under this section shall not claim a  
3 credit under section 43-1085.01 for the same expenses.

4 Sec. 25. Section 43-1074.01, Arizona Revised Statutes, as  
5 amended by Laws 2011, second special session, chapter 1, section  
6 97, is amended to read:

7 43-1074.01. Credit for increased research activities

8 A. **FOR TAXABLE YEARS THROUGH DECEMBER 31, 2026, UNLESS**  
9 **THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE,** a credit  
10 is allowed against the taxes imposed by this title in an amount  
11 determined pursuant to section 41 of the internal revenue code,  
12 except that:

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

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

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

24 (i) For taxable years beginning from and after December  
25 31, 2000 through December 31, 2001, the credit shall not exceed  
26 one million five hundred thousand dollars.

27 (ii) For taxable years beginning from and after December  
28 31, 2001 through December 31, 2002, the credit shall not exceed  
29 two million five hundred thousand dollars.

30 (c) For taxable years beginning from and after December  
31 31, 2011, an additional credit amount is allowed if the taxpayer  
32 made basic research payments during the taxable year to a  
33 university under the jurisdiction of the Arizona board of  
34 regents. The additional credit amount is equal to ten per cent  
35 of the basic research payments that constitute excess expenses  
36 for the taxable year over the base amount. The department shall  
37 not allow credit amounts under this subdivision and section  
38 43-1168, subsection A, paragraph 1, subdivision (d) that exceed,  
39 in the aggregate, a combined total of ten million dollars in any  
40 calendar year. Subject to that limit, on application by the  
41 taxpayer, the department shall preapprove credit amounts under  
42 this subdivision and section 43-1168, subsection A, paragraph 1,  
43 subdivision (d) based on priority placement established by the  
44 date that the taxpayer filed the application. Notwithstanding  
45 subsections B and C of this section, any amount of the

1 additional credit under this subdivision that exceeds the taxes  
2 otherwise due under this title is not refundable, but may be  
3 carried forward to the next five consecutive taxable years. For  
4 the purposes of this subdivision, "basic research payments" has  
5 the same meaning prescribed by section 41(e) of the internal  
6 revenue code without regard TO whether the taxpayer is or is not  
7 a corporation.

8 2. Qualified research includes only research conducted in  
9 this state including research conducted at a university in this  
10 state and paid for by the taxpayer.

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

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

18 5. The termination provisions of section 41 of the  
19 internal revenue code do not apply.

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

40 C. For taxable years beginning from and after December  
41 31, 2009, if a taxpayer who claims a credit under this section  
42 employs fewer than one hundred fifty persons in the taxpayer's  
43 trade or business and if the allowable credit under this section  
44 exceeds the taxes otherwise due under this title on the  
45 claimant's income, or if there are no taxes due under this

1 title, in lieu of carrying the excess amount of credit forward  
2 to subsequent taxable years under subsection B of this section,  
3 the taxpayer may elect to receive a refund as follows:

4 1. The taxpayer must apply to the ~~department of commerce~~  
5 ARIZONA COMMERCE AUTHORITY for qualification for the refund  
6 pursuant to section 41-1507 and submit a copy of the ~~department~~  
7 ~~of commerce's~~ ARIZONA COMMERCE AUTHORITY'S certificate of  
8 qualification to the department of revenue with the taxpayer's  
9 income tax return.

10 2. The amount of the refund is limited to seventy-five  
11 per cent of the amount by which the allowable credit under this  
12 section exceeds the taxpayer's tax liability under this title  
13 for the taxable year. The remainder of the excess amount of the  
14 credit is waived.

15 3. The refund shall be paid in the manner prescribed by  
16 section 42-1118.

17 4. The refund is subject to setoff under section 42-1122.

18 5. If the department determines that a credit refunded  
19 pursuant to this subsection is incorrect or invalid, the excess  
20 credit issued may be treated as a tax deficiency pursuant to  
21 section 42-1108.

22 D. A taxpayer that claims a credit for increased research  
23 and development activity under this section shall not claim a  
24 credit under section 43-1085.01 for the same expenses.

25 Sec. 26. Section 43-1077, Arizona Revised Statutes, is  
26 amended to read:

27 43-1077. Credit for employment by qualified defense  
28 contractor

29 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
30 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
31 is allowed against the taxes imposed by this title for:

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

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

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

4	1st year	\$2,500
5	2nd year	\$2,000
6	3rd year	\$1,500
7	4th year	\$1,000
8	5th year	\$ 500

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

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

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

30           2. For the first year of the credit, the taxpayer's net  
31 increase in average employment is the increase in employment  
32 reported to the department of economic security for the taxable  
33 year over the employment baseline.

34           3. For each succeeding year of the credit, the taxpayer's  
35 net increase in average employment is the increase in employment  
36 reported to the department of economic security for the taxable  
37 year over the preceding taxable year's average employment.

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

40           1. Prorate employment during the taxable year according  
41 to the date of transfer from defense to private commercial  
42 activities or the date of transfer from private commercial  
43 activities to defense.

44           2. Compute and subtract an amount pursuant to subsection  
45 B of this section for full-time equivalent employee positions

1 that were transferred during the taxable year by the taxpayer  
2 from exclusively private commercial activities to exclusively  
3 defense related activities.

4 F. The taxpayer shall account for qualifying full-time  
5 equivalent employee positions on a first-in first-out basis. If  
6 a decrease in qualifying employment occurs, the taxpayer shall  
7 subtract the decrease from the earliest qualifying positions.

8 G. A credit is not allowed under both subsection A,  
9 paragraphs 1 and 2 of this section with respect to the same  
10 employee position. A full-time equivalent employee position may  
11 be considered for purposes of computing the credit under either  
12 subsection A, paragraph 1 or 2 of this section, but not both.

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

17 I. A taxpayer who claims a credit under section 43-1074,  
18 43-1079 or 43-1083.01 may not claim a credit under this section  
19 with respect to the same employee positions.

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

27 Sec. 27. Section 43-1078, Arizona Revised Statutes, is  
28 amended to read:

29 43-1078. Credit for property taxes paid by qualified  
30 defense contractor

31 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
32 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
33 is allowed against the taxes imposed by this title equal to a  
34 portion of the amount paid as taxes during the taxable year by a  
35 qualified defense contractor that is certified by the Arizona  
36 commerce authority under section 41-1508, on property in this  
37 state that is classified as class one, paragraphs 12 and 13  
38 pursuant to section 42-12001.

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

40 1. Multiply the amount paid as taxes on property  
41 classified as class one, paragraphs 12 and 13 pursuant to  
42 section 42-12001 in this state during the taxable year by a  
43 percentage based on net new defense related employment,  
44 determined by subtracting the employment baseline determined  
45 pursuant to section 43-1077, subsection D, paragraph 1, from

1 average annual employment as reported to the department of  
2 economic security for the taxable year, as follows:

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

3  
4  
5  
6  
7  
8 2. Multiply the amount determined under paragraph 1 of  
9 this subsection by a percentage determined by dividing the  
10 taxpayer's total gross income from United States department of  
11 defense contracts apportioned to this state by the taxpayer's  
12 total gross income from all sources apportioned to this state.

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

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

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

31 Sec. 28. Section 43-1079, Arizona Revised Statutes, is  
32 amended to read:

33 43-1079. Credit for increased employment in military  
34 reuse zones; definition

35 A. **FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS**  
36 **THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE,** a credit  
37 is allowed against the taxes imposed by this title for net  
38 increases in employment by the taxpayer of full-time employees  
39 working in a military reuse zone, established under title 41,  
40 chapter 10, article 3, and who are primarily engaged in  
41 providing aviation or aerospace services or in manufacturing,  
42 assembling or fabricating aviation or aerospace products. The  
43 amount of the credit is a dollar amount allowed for each new  
44 employee, determined as follows:

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

10	1st year of employment	\$1,000
11	2nd year of employment	\$1,500
12	3rd year of employment	\$2,000
13	4th year of employment	\$2,500
14	5th year of employment	\$3,000

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

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

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

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

43           F. A taxpayer who claims a credit under section 43-1074,  
44 43-1077 or 43-1083.01 may not claim a credit under this section  
45 with respect to the same employees.

1 G. For the purposes of this section, "dislocated military  
2 base employee" means a civilian who previously had permanent  
3 full-time civilian employment on the military facility as of the  
4 date the closure of the facility was finally determined under  
5 federal law, as certified by the Arizona commerce authority.

6 Sec. 29. Section 43-1079.01, Arizona Revised Statutes, is  
7 amended to read:

8 43-1079.01. Credit for employing national guard members

9 A. For taxable years beginning from and after December  
10 31, 2005 THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY  
11 MAJORITY VOTE, EXTENDS THIS DATE, a credit is allowed against  
12 the taxes imposed by this title for a taxpayer whose employee is  
13 a member of the Arizona national guard if the employee is placed  
14 on active duty. The amount of the credit is one thousand  
15 dollars for each employee who is placed on active duty by the  
16 Arizona national guard.

17 B. To qualify for the credit:

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

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

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

32 D. The credit under this section may be claimed only once  
33 by the taxpayer in any taxable year with respect to each  
34 employee who is placed on active duty by the Arizona national  
35 guard, but may be claimed again for that employee in a  
36 subsequent taxable year if that employee remains on active duty  
37 or is placed again on active duty in a subsequent taxable year.

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

1           Sec. 30. Section 43-1081, Arizona Revised Statutes, is  
2 amended to read:

3           43-1081. Credit for pollution control equipment

4           A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
5 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
6 is allowed against the taxes imposed by this title for expenses  
7 that the taxpayer incurred during the taxable year to purchase  
8 real or personal property that is used in the taxpayer's trade  
9 or business in this state to control or prevent pollution. The  
10 amount of the credit is equal to ten per cent of the purchase  
11 price.

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

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

26           1. The purchase of any personal property that is attached  
27 to a motor vehicle.

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

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

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

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

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

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

9 Sec. 31. Section 43-1081.01, Arizona Revised Statutes, is  
10 amended to read:

11 43-1081.01. Credit for agricultural pollution control  
12 equipment

13 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
14 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
15 is allowed against the taxes imposed by this title for expenses  
16 that a taxpayer, involved in the commercial production of  
17 livestock, livestock products or agricultural, horticultural,  
18 viticultural or floricultural crops or products, incurred during  
19 the taxable year to purchase tangible personal property that is  
20 primarily used in the taxpayer's trade or business in this state  
21 to control or prevent pollution. The amount of the credit is  
22 equal to twenty-five per cent of the cost of the real or  
23 personal property. The maximum credit that a taxpayer may claim  
24 under this section is twenty-five thousand dollars in a taxable  
25 year.

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

33 C. Amounts that qualify for a credit under this section  
34 must be includible in the taxpayer's adjusted basis for the  
35 property. The adjusted basis of any property with respect to  
36 which the taxpayer has claimed a credit shall be reduced by the  
37 amount of credit claimed with respect to that asset. This  
38 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 partners in a  
41 partnership and shareholders of an S corporation, as defined in  
42 section 1361 of the internal revenue code, may each claim only  
43 the pro rata share of the credit allowed under this section  
44 based on the ownership interest. The total of the credits

1 allowed all such owners may not exceed the amount that would  
2 have been allowed a sole owner.

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

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

12 Sec. 32. Section 43-1083, Arizona Revised Statutes, is  
13 amended to read:

14 43-1083. Credit for solar energy devices

15 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
16 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
17 is allowed against the taxes imposed by this title for each  
18 resident who is not a dependent of another taxpayer for  
19 installing a solar energy device, as defined in section 42-5001,  
20 during the taxable year in the taxpayer's residence located in  
21 this state. The credit is equal to twenty-five per cent of the  
22 cost of the device.

23 B. The maximum credit in a taxable year may not exceed  
24 one thousand dollars. The person who provides the solar energy  
25 device shall furnish the taxpayer with an accounting of the cost  
26 to the taxpayer. A taxpayer may claim the credit under this  
27 section only once in a tax year and may not cumulate over  
28 different tax years tax credits under this section exceeding, in  
29 the aggregate, one thousand dollars for the same residence.

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

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

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

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

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

11 Sec. 33. Section 43-1083.02, Arizona Revised Statutes, is  
12 amended to read:

13 43-1083.02. Renewable energy production tax credit;  
14 definitions

15 A. SUBJECT TO SUBSECTION B OF THIS SECTION, FOR TAXABLE  
16 YEARS THROUGH DECEMBER 31, 2030, UNLESS THE LEGISLATURE, BY  
17 MAJORITY VOTE, EXTENDS THIS DATE, a credit is allowed against  
18 the taxes imposed by this title for the production of  
19 electricity using renewable energy resources.

20 B. The taxpayer is eligible for the credit:

21 1. If the taxpayer holds title to a qualified energy  
22 generator that first produces electricity from and after  
23 December 31, 2010 and before January 1, 2021.

24 2. For ten consecutive calendar years beginning with the  
25 calendar year in which the qualified energy generator begins  
26 producing electricity that is transmitted through a transmission  
27 facility to a grid connection with a public or private electric  
28 transmission or distribution utility system. That same date  
29 applies with respect to that generator until the expiration of  
30 the ten-year period regardless of whether the generator is sold  
31 to another taxpayer or goes out of production before the  
32 expiration of the ten-year period.

33 C. The credit authorized by this section is based on the  
34 electricity that is generated by a qualified energy generator  
35 during a calendar year. For a taxpayer that files on a fiscal  
36 year basis, the credit shall be claimed on the return for the  
37 taxable year in which the calendar year ends.

38 D. Subject to subsection G of this section, the amount of  
39 the credit is:

40 1. One cent per kilowatt-hour of the first two hundred  
41 thousand megawatt-hours of electricity produced by a qualified  
42 energy generator in the calendar year using a wind or biomass  
43 derived qualified energy resource.

1           2. The following amounts for electricity produced by a  
2 qualified energy generator using a solar light derived or solar  
3 heat derived qualified energy resource:

4           (a) Four cents per kilowatt-hour in the first calendar  
5 year in which the qualified energy generator produces  
6 electricity.

7           (b) Four cents per kilowatt-hour in the second calendar  
8 year in which the qualified energy generator produces  
9 electricity.

10          (c) Three and one-half cents per kilowatt-hour in the  
11 third calendar year in which the qualified energy generator  
12 produces electricity.

13          (d) Three and one-half cents per kilowatt-hour in the  
14 fourth calendar year in which the qualified energy generator  
15 produces electricity.

16          (e) Three cents per kilowatt-hour in the fifth calendar  
17 year in which the qualified energy generator produces  
18 electricity.

19          (f) Three cents per kilowatt-hour in the sixth calendar  
20 year in which the qualified energy generator produces  
21 electricity.

22          (g) Two cents per kilowatt-hour in the seventh calendar  
23 year in which the qualified energy generator produces  
24 electricity.

25          (h) Two cents per kilowatt-hour in the eighth calendar  
26 year in which the qualified energy generator produces  
27 electricity.

28          (i) One and one-half cents per kilowatt-hour in the ninth  
29 calendar year in which the qualified energy generator produces  
30 electricity.

31          (j) One cent per kilowatt-hour in the tenth calendar year  
32 in which the qualified energy generator produces electricity.

33          E. To qualify for the purposes of this section, an energy  
34 generator may be located within one mile of an existing  
35 qualified energy generator only if the owner of the energy  
36 generator or the owner's corporate affiliates are not the owner  
37 of or the corporate affiliate of the owner of the existing  
38 qualified energy generator.

39          F. To be eligible for the credit under this section, the  
40 taxpayer must apply to the department, on a form prescribed by  
41 the department, for certification of the credit. The department  
42 shall only accept applications beginning January 2 through  
43 January 31 of the year following the calendar year for which the  
44 credit is being requested. The application shall include:

- 1           1. The name, address and social security number or  
2 federal employer identification number of the applicant.
- 3           2. The location of the taxpayer's facility that produces  
4 electricity using renewable energy resources for which the  
5 credit is claimed.
- 6           3. The amount of the credit that is claimed.
- 7           4. The date the qualified energy generator began  
8 producing commercially marketable amounts of electricity.
- 9           5. Any additional information that the department  
10 requires.
- 11          G. The department shall review each application under  
12 subsection F of this section and certify to the taxpayer the  
13 amount of the credit that is authorized. The amount of the  
14 credit for any calendar year shall not exceed two million  
15 dollars per facility that produces electricity using renewable  
16 energy resources. Credits are allowed under this section and  
17 section 43-1164.03 on a first come, first served basis. The  
18 department shall not authorize tax credits under this section  
19 and section 43-1164.03 that exceed in the aggregate a total of  
20 twenty million dollars for any calendar year. The first time  
21 that a taxpayer submits a qualified application for a qualified  
22 energy generator under subsection F of this section, the  
23 department shall add the taxpayer's name to a credit  
24 authorization list that is maintained in the order in which  
25 qualified applications are first received by the department on  
26 behalf of the qualified energy generator. A taxpayer's position  
27 on the credit authorization list shall be determined in the  
28 first year the taxpayer submits an application under subsection  
29 F of this section for the qualified energy generator. The  
30 taxpayer's position on the credit authorization list for a  
31 particular qualified energy generator shall remain unchanged for  
32 the ten years that are specified in subsection B, paragraph 2 of  
33 this section or until a year in which the taxpayer fails to  
34 submit a timely application under subsection F of this section  
35 or otherwise fails to comply with this section. If a taxpayer  
36 is removed from the credit authorization list for a qualified  
37 energy generator, the taxpayer may establish a new position on  
38 the credit authorization list in a subsequent year by filing a  
39 timely application for a qualified energy generator that  
40 qualifies for the credit. If an application is received that,  
41 if authorized, would require the department to exceed the twenty  
42 million dollar limit, the department shall grant the applicant  
43 only the remaining credit amount that would not exceed the  
44 twenty million dollar limit. After the department authorizes  
45 twenty million dollars in tax credits, the department shall deny

1 any subsequent applications that are received for that calendar  
2 year. The department shall not authorize any additional tax  
3 credits that exceed the twenty million dollar limit even if the  
4 amounts that have been certified to any taxpayer were not  
5 claimed or a taxpayer otherwise fails to meet the requirements  
6 to claim the additional credit.

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

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

22 J. The department shall adopt rules and publish and  
23 prescribe forms and procedures as necessary to effectuate the  
24 purposes of this section.

25 K. For the purposes of this section:

26 1. "Biomass" means organic material that is available on  
27 a renewable or recurring basis, including:

28 (a) Forest-related materials, including mill residues,  
29 logging residues, forest thinnings, slash, brush, low-commercial  
30 value materials or undesirable species, salt cedar and other  
31 phreatophyte or woody vegetation removed from river basins or  
32 watersheds and woody material harvested for the purpose of  
33 forest fire fuel reduction or forest health and watershed  
34 improvement.

35 (b) Agricultural-related materials, including orchard  
36 trees, vineyard, grain or crop residues, including straws and  
37 stover, aquatic plants and agricultural processed coproducts and  
38 waste products, including fats, oils, greases, whey and lactose.

39 (c) Animal waste, including manure and slaughterhouse and  
40 other processing waste.

41 (d) Solid woody waste materials, including landscape or  
42 right-of-way tree trimmings, rangeland maintenance residues,  
43 waste pallets, crates and manufacturing, construction and  
44 demolition wood wastes, excluding pressure-treated,

1 chemically-treated or painted wood wastes and wood contaminated  
2 with plastic.

3 (e) Crops and trees planted for the purpose of being used  
4 to produce energy.

5 (f) Landfill gas, wastewater treatment gas and biosolids,  
6 including organic waste byproducts generated during the  
7 wastewater treatment process.

8 2. "Qualified energy generator" means a facility that has  
9 at least five megawatts generating capacity, that is located on  
10 land in this state owned or leased by the taxpayer, that  
11 produces electricity using a qualified energy resource and that  
12 sells that electricity to an unrelated entity, unless the  
13 electricity is sold to a public service corporation.

14 3. "Qualified energy resource" means a resource that  
15 generates electricity through the use of only the following  
16 energy sources:

- 17 (a) Solar light.
- 18 (b) Solar heat.
- 19 (c) Wind.
- 20 (d) Biomass.

21 Sec. 34. Section 43-1084, Arizona Revised Statutes, is  
22 amended to read:

23 43-1084. Credit for agricultural water conservation  
24 system

25 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
26 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
27 is allowed against the taxes imposed by this title for expenses  
28 that the taxpayer incurred during the taxable year to purchase  
29 and install an agricultural water conservation system in this  
30 state. The amount of the credit is equal to seventy-five per  
31 cent of the qualifying expenses.

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

33 1. The agricultural water conservation system must be  
34 primarily designed to substantially conserve water on land that  
35 is used by the taxpayer 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  
40 plan that the taxpayer has filed and that is in effect with the  
41 United States department of agriculture soil conservation  
42 service.

43 C. Co-owners of the land on which the water conservation  
44 system is installed, including partners in a partnership and  
45 shareholders of an S corporation, as defined in section 1361 of

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

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

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

15 Sec. 35. Section 43-1087, Arizona Revised Statutes, is  
16 amended to read:

17 43-1087. Credit for employment of temporary assistance  
18 for needy families recipients

19 A. **FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS**  
20 **THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE,** a credit  
21 is allowed against the taxes imposed by this title for net  
22 increases in qualified employment by the taxpayer of recipients  
23 of temporary assistance for needy families as defined in section  
24 46-101 who are residents of this state. The amount of the  
25 credit is equal to the sum of the following:

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

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

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

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

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

44 1. All of the employees with respect to whom a credit is  
45 claimed must reside in this state and must be recipients of

1 temporary assistance for needy families as defined in section  
2 46-101 at the time the employee is hired.

3 2. A qualified employment position must meet all of the  
4 following requirements:

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

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

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

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

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

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

25 D. The net increase in the number of qualified employment  
26 positions shall be determined by comparing the average number of  
27 qualified employment positions during the taxable year with the  
28 immediately preceding taxable year based on the taxpayer's  
29 report to the department of economic security for unemployment  
30 purposes.

31 E. If the allowable tax credit exceeds the income taxes  
32 otherwise due on the claimant's income, the amount of the claim  
33 not used as an offset against income taxes may be carried  
34 forward as a tax credit against subsequent years' income tax  
35 liability for the period, not to exceed five consecutive taxable  
36 years.

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

44 G. The department may adopt rules necessary for the  
45 administration of this section.



1 that the organization is a designated community action agency  
2 that receives community services block grant program monies  
3 pursuant to 42 United States Code section 9901.

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

8 (a) Receive temporary assistance for needy families  
9 benefits.

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

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

12 3. A statement that the organization plans to continue  
13 spending at least fifty per cent of its budget on services to  
14 residents of this state who receive temporary assistance for  
15 needy families benefits, who are low income residents of this  
16 state or who are chronically ill or physically disabled  
17 children.

18 4. A statement that the organization does not provide,  
19 pay for, promote, provide coverage of or provide referrals for  
20 abortions and does not financially support any other entity that  
21 provides, pays for, promotes, provides coverage of or provides  
22 referrals for abortions.

23 H. The department shall review each written certification  
24 and determine whether the organization meets all the criteria to  
25 be considered a qualifying charitable organization and notify  
26 the organization of its determination. The department may also  
27 periodically request recertification from the organization. The  
28 department shall compile and make available to the public a list  
29 of the qualifying charitable organizations.

30 I. For the purposes of this section:

31 1. "Chronically ill or physically disabled children" has  
32 the same meaning prescribed in section 36-260.

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

36 3. "Qualifying charitable organization" means a  
37 charitable organization that is exempt from federal income  
38 taxation under section 501(c)(3) of the internal revenue code or  
39 is a designated community action agency that receives community  
40 services block grant program monies pursuant to 42 United States  
41 Code section 9901. The organization must spend at least fifty  
42 per cent of its budget on services to residents of this state  
43 who receive temporary assistance for needy families benefits or  
44 low income residents of this state and their households or to  
45 chronically ill or physically disabled children who are

1 residents of this state. Taxpayers choosing to make donations  
2 through an umbrella charitable organization that collects  
3 donations on behalf of member charities shall designate that the  
4 donation be directed to a member charitable organization that  
5 would qualify under this section on a stand-alone basis.  
6 Qualifying charitable organization does not include any entity  
7 that provides, pays for, promotes, provides coverage of or  
8 provides referrals for abortions or that financially supports  
9 any other entity that provides, pays for, promotes, provides  
10 coverage of or provides referrals for abortions.

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

16 Sec. 37. Section 43-1089, Arizona Revised Statutes, is  
17 amended to read:

18 43-1089. Credit for contributions to school tuition  
19 organization; definitions

20 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
21 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
22 is allowed against the taxes imposed by this title for the  
23 amount of voluntary cash contributions by the taxpayer or on the  
24 taxpayer's behalf pursuant to section 43-401, subsection I  
25 during the taxable year to a school tuition organization that is  
26 certified pursuant to chapter 16 of this title at the time of  
27 donation. Except as provided by subsection C of this section,  
28 the amount of the credit shall not exceed:

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

31 2. One thousand dollars in any taxable year for a married  
32 couple filing a joint return.

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

37 C. For each taxable year beginning on or after January 1,  
38 the department shall adjust the dollar amounts prescribed by  
39 subsection A, paragraphs 1 and 2 of this section according to  
40 the average annual change in the metropolitan Phoenix consumer  
41 price index published by the United States bureau of labor  
42 statistics, except that the dollar amounts shall not be revised  
43 downward below the amounts allowed in the prior taxable year.  
44 The revised dollar amounts shall be raised to the nearest whole  
45 dollar.

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

7           E. The credit allowed by this section is in lieu of any  
8 deduction pursuant to section 170 of the internal revenue code  
9 and taken for state tax purposes.

10          F. The tax credit is not allowed if the taxpayer  
11 designates the taxpayer's contribution to the school tuition  
12 organization for the direct benefit of any dependent of the  
13 taxpayer or if the taxpayer designates a student beneficiary as  
14 a condition of the taxpayer's contribution to the school tuition  
15 organization. The tax credit is not allowed if the taxpayer,  
16 with the intent to benefit the taxpayer's dependent, agrees with  
17 one or more other taxpayers to designate each taxpayer's  
18 contribution to the school tuition organization for the direct  
19 benefit of the other taxpayer's dependent.

20          G. For the purposes of this section, a contribution, for  
21 which a credit is claimed, that is made on or before the  
22 fifteenth day of the fourth month following the close of the  
23 taxable year may be applied to either the current or preceding  
24 taxable year and is considered to have been made on the last day  
25 of that taxable year.

26          H. For the purposes of this section:

27           1. "Handicapped student" means a student who has any of  
28 the following conditions:

- 29           (a) Hearing impairment.
- 30           (b) Visual impairment.
- 31           (c) Developmental delay.
- 32           (d) Preschool severe delay.
- 33           (e) Speech/language impairment.

34           2. "Qualified school":

35           (a) Means a nongovernmental primary school or secondary  
36 school or a preschool for handicapped students that is located  
37 in this state, that does not discriminate on the basis of race,  
38 color, handicap, familial status or national origin and that  
39 satisfies the requirements prescribed by law for private schools  
40 in this state on January 1, 1997.

41           (b) Does not include a charter school or programs  
42 operated by charter schools.



1 F. A public school that receives fees or a cash  
2 contribution pursuant to subsection A of this section shall  
3 report to the department, in a form prescribed by the  
4 department, by February 28 of each year the following  
5 information:

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

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

10 3. The total dollar amount of fees and contributions  
11 spent by the school during the previous calendar year,  
12 categorized by specific extracurricular activity or character  
13 education program.

14 G. For the purposes of this section:

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

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

20 (a) Band uniforms.

21 (b) Equipment or uniforms for varsity athletic  
22 activities.

23 (c) Scientific laboratory materials.

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

28 3. "Public school" means a school that is part of a  
29 school district, a joint technical education district or a  
30 charter school.

31 Sec. 39. Section 43-1089.02, Arizona Revised Statutes, is  
32 amended to read:

33 43-1089.02. Credit for donation of school site

34 A. **FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS**  
35 **THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE,** a credit  
36 is allowed against the taxes imposed by this title in the amount  
37 of thirty per cent of the value of real property and  
38 improvements donated by the taxpayer to a school district or a  
39 charter school for use as a school or as a site for the  
40 construction of a school.

41 B. To qualify for the credit:

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

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

1 (a) The conveyance must include as a deed restriction and  
2 protective covenant running with title to the land the  
3 requirement that as long as the donee holds title to the  
4 property the property shall only be used as a school or as a  
5 site for the construction of a school, subject to subsection I  
6 or J of this section.

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

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

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

17 D. If the property is donated by co-owners, including  
18 partners in a partnership and shareholders of an S corporation,  
19 as defined in section 1361 of the internal revenue code, each  
20 donor may claim only the pro rata share of the allowable credit  
21 under this section based on the ownership interest. If the  
22 property is donated by a husband and wife who file separate  
23 returns for a taxable year in which they could have filed a  
24 joint return, they may determine between them the share of the  
25 credit each will claim. The total of the credits allowed all  
26 co-owner donors may not exceed the allowable credit.

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

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

36 G. On written request by the donee, the donor shall  
37 disclose in writing to the donee the amount of the credit  
38 allowed pursuant to this section with respect to the property  
39 received by the donee.

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

42 I. If the donee is a school district:

43 1. The district shall notify the school facilities board  
44 established by section 15-2001 and furnish the board with any  
45 information the board requests regarding the donation. A school

1 district shall not accept a donation pursuant to this section  
2 unless the school facilities board has reviewed the proposed  
3 donation and has issued a written determination that the real  
4 property and improvements are suitable as a school site or as a  
5 school. The school facilities board shall issue a determination  
6 that the real property and improvements are not suitable as a  
7 school site or as a school if the expenses that would be  
8 necessary to make the property suitable as a school site or as a  
9 school exceed the value of the proposed donation.

10 2. The district may sell any donated property pursuant to  
11 section 15-342, but the proceeds from the sale shall only be  
12 used for capital projects. The school facilities board shall  
13 withhold an amount that corresponds to the amount of the  
14 proceeds from any monies that would otherwise be due the school  
15 district from the school facilities board pursuant to section  
16 15-2041.

17 J. If the donee is a charter school:

18 1. The charter school shall:

19 (a) Immediately notify the sponsor of the charter school  
20 by certified mail and shall furnish the sponsor with any  
21 information requested by the sponsor regarding the donation  
22 during the ten year period after the conveyance is recorded.

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

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

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

31 (iii) Establishes a charter school on the property but  
32 subsequently ceases to operate the charter school on the  
33 property for twenty-four consecutive months or fails to provide  
34 instruction to pupils on the property for twenty-four  
35 consecutive months.

36 2. The charter school, or a successor in interest, shall  
37 pay to the state treasurer the amount of the credit allowed  
38 under this section, or if that amount is unknown, the amount of  
39 the allowable credit under this section, if any of the  
40 circumstances listed in paragraph 1, subdivision (b) of this  
41 subsection ~~occurs~~ OCCURS. If the amount is not paid within one  
42 year after the treasurer receives notice under paragraph 1,  
43 subdivision (b) of this subsection, a penalty and interest shall  
44 be added, determined pursuant to title 42, chapter 1, article 3.

1           3. A tax credit under this section constitutes a lien on  
2 the property, which the donor must record along with the title  
3 to the property to qualify for the credit. The amount of the  
4 lien is the amount of the allowable credit under this section,  
5 adjusted according to the average change in the GDP price  
6 deflator, as defined in section 41-563, for each calendar year  
7 since the donation, but not exceeding twelve and one-half per  
8 cent more than the allowable credit. The lien is subordinate to  
9 any liens securing the financing of the school construction.  
10 The lien is extinguished on the earliest of the following:

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

14           (b) On payment to the state treasurer by the donee  
15 charter school, or by a successor in interest, of the amount of  
16 the allowable credit under this section, either voluntarily or  
17 as required by paragraph 2 of this subsection. After the  
18 required amount is paid, the charter school or successor in  
19 interest may request the state treasurer to release the lien.

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

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

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

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

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

32           43-1090. Credit for solar hot water heater plumbing stub  
33 outs and electric vehicle recharge outlets  
34 installed in houses constructed by taxpayer

35           A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
36 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
37 is allowed against the taxes imposed by this title for costs  
38 incurred during the taxable year of installing or including in  
39 one or more houses or dwelling units located in this state and  
40 constructed by the taxpayer one or more:

41           1. Solar hot water plumbing stub outs. To qualify for  
42 the credit, the stub out must:

1 (a) Include two insulated three-fourths inch copper pipes  
2 and at least two pairs of wires for monitoring and control  
3 purposes that project from the dwelling roof or other suitable  
4 location and that are connected to the domestic hot water  
5 transport and storage system.

6 (b) Be located and configured to allow sufficient solar  
7 access and exposure and to allow ready installation of solar  
8 water heating devices without further expense or effort to  
9 reach, use or serve the domestic hot water system of the house  
10 or dwelling UNIT.

11 2. Electric vehicle recharge outlets. To qualify for the  
12 credit, the outlet must be connected to the utility system by a  
13 dedicated line that:

14 (a) Is capable of operating at normal secondary voltages.

15 (b) Meets applicable local building safety codes.

16 (c) Is commensurate and consistent with electric vehicle  
17 recharging needs and methods.

18 B. The credit shall not exceed seventy-five dollars for  
19 each installation for each separate house or dwelling unit.

20 C. The taxpayer may elect to transfer a credit under this  
21 section to a purchaser or transferee of the house or dwelling  
22 unit. If the taxpayer elects to transfer the credit, the  
23 taxpayer shall deliver to the purchaser or transferee a written  
24 statement that the taxpayer has elected not to claim the credit  
25 and that the purchaser or transferee may claim the credit,  
26 subject to the conditions and limitations prescribed by this  
27 section.

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

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

41 F. The credit allowed under this section is in lieu of  
42 any expenses taken for installing solar stub outs or electric  
43 vehicle recharge outlets ~~to reach~~ IN COMPUTING Arizona taxable  
44 income.

1           Sec. 41. Section 43-1161, Arizona Revised Statutes, is  
2 amended to read:

3           43-1161. Credit for new employment

4           A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
5 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
6 is allowed against the taxes imposed by this title for net  
7 increases in full-time employees hired in qualified employment  
8 positions as certified by the Arizona commerce authority  
9 pursuant to section 41-1525.

10          B. Subject to subsection E of this section, the amount of  
11 the credit is equal to three thousand dollars for each full-time  
12 employee hired for the full taxable year in a qualified  
13 employment position in each of the first three years of  
14 employment, but not more than four hundred employees in any  
15 taxable year.

16          C. To qualify for a credit under this section, the  
17 taxpayer and the employment positions must meet the requirements  
18 prescribed by section 41-1525.

19          D. A credit is allowed for employment in the second and  
20 third year only for qualified employment positions for which a  
21 credit was claimed and allowed in the first year.

22          E. The net increase in the number of qualified employment  
23 positions is the lesser of the total number of filled qualified  
24 employment positions created during the taxable year or the  
25 difference between the average number of full-time employees in  
26 the current tax year and the average number of full-time  
27 employees during the immediately preceding taxable year. The  
28 net increase in the number of qualified employment positions  
29 computed under this subsection may not exceed four hundred  
30 qualified employment positions per taxpayer each year.

31          F. A taxpayer who claims a credit under section  
32 43-1164.01, 43-1165 or 43-1167 shall not claim a credit under  
33 this section with respect to the same employment positions.

34          G. If the allowable tax credit exceeds the income taxes  
35 otherwise due on the claimant's income, or if there are no state  
36 income taxes due on the claimant's income, the amount of the  
37 claim not used as an offset against the income taxes may be  
38 carried forward as a tax credit against subsequent years' income  
39 tax liability for a period not exceeding five taxable years.

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

1 I. If the business is sold or changes ownership through  
2 reorganization, stock purchase or merger, the new taxpayer may  
3 claim first year credits only for the qualified employment  
4 positions that it created and filled with an eligible employee  
5 after the purchase or reorganization was complete. If a person  
6 purchases a taxpayer that had qualified for first or second year  
7 credits or changes ownership through reorganization, stock  
8 purchase or merger, the new taxpayer may claim the second or  
9 third year credits if it meets other eligibility requirements of  
10 this section. Credits for which a taxpayer qualified before the  
11 changes described in this subsection are terminated and lost at  
12 the time the changes are implemented.

13 J. A failure to timely report and certify to the Arizona  
14 commerce authority the information prescribed by section  
15 41-1525, subsection D, and in the manner prescribed by section  
16 41-1525, subsection E disqualifies the taxpayer from the credit  
17 under this section. The department shall require written  
18 evidence of the timely report to the Arizona commerce authority.

19 K. A tax credit under this section is subject to recovery  
20 for a violation described in section 41-1525, subsection G.

21 Sec. 42. Section 43-1164.03, Arizona Revised Statutes, is  
22 amended to read:

23 43-1164.03. Renewable energy production tax credit;  
24 definitions

25 A. SUBJECT TO SUBSECTION B OF THIS SECTION, FOR TAXABLE  
26 YEARS THROUGH DECEMBER 31, 2030, UNLESS THE LEGISLATURE, BY  
27 MAJORITY VOTE, EXTENDS THIS DATE, a credit is allowed against  
28 the taxes imposed by this title for the production of  
29 electricity using renewable energy resources.

30 B. The taxpayer is eligible for the credit:

31 1. If the taxpayer holds title to a qualified energy  
32 generator that first produces electricity from and after  
33 December 31, 2010 and before January 1, 2021.

34 2. For ten consecutive calendar years beginning with the  
35 calendar year in which the qualified energy generator begins  
36 producing electricity that is transmitted through a transmission  
37 facility to a grid connection with a public or private electric  
38 transmission or distribution utility system. That same date  
39 applies with respect to that generator until the expiration of  
40 the ten-year period regardless of whether the generator is sold  
41 to another taxpayer or goes out of production before the  
42 expiration of the ten-year period.

43 C. The credit authorized by this section is based on the  
44 electricity that is generated by a qualified energy generator  
45 during a calendar year. For a taxpayer that files on a fiscal

1 year basis, the credit shall be claimed on the return for the  
2 taxable year in which the calendar year ends.

3 D. Subject to subsection G of this section, the amount of  
4 the credit is:

5 1. One cent per kilowatt-hour of the first two hundred  
6 thousand megawatt-hours of electricity produced by a qualified  
7 energy generator in the calendar year using a wind or biomass  
8 derived qualified energy resource.

9 2. The following amounts for electricity produced by a  
10 qualified energy generator using a solar light derived or solar  
11 heat derived qualified energy resource:

12 (a) Four cents per kilowatt-hour in the first calendar  
13 year in which the qualified energy generator produces  
14 electricity.

15 (b) Four cents per kilowatt-hour in the second calendar  
16 year in which the qualified energy generator produces  
17 electricity.

18 (c) Three and one-half cents per kilowatt-hour in the  
19 third calendar year in which the qualified energy generator  
20 produces electricity.

21 (d) Three and one-half cents per kilowatt-hour in the  
22 fourth calendar year in which the qualified energy generator  
23 produces electricity.

24 (e) Three cents per kilowatt-hour in the fifth calendar  
25 year in which the qualified energy generator produces  
26 electricity.

27 (f) Three cents per kilowatt-hour in the sixth calendar  
28 year in which the qualified energy generator produces  
29 electricity.

30 (g) Two cents per kilowatt-hour in the seventh calendar  
31 year in which the qualified energy generator produces  
32 electricity.

33 (h) Two cents per kilowatt-hour in the eighth calendar  
34 year in which the qualified energy generator produces  
35 electricity.

36 (i) One and one-half cents per kilowatt-hour in the ninth  
37 calendar year in which the qualified energy generator produces  
38 electricity.

39 (j) One cent per kilowatt-hour in the tenth calendar year  
40 in which the qualified energy generator produces electricity.

41 E. To qualify for the purposes of this section, an energy  
42 generator may be located within one mile of an existing  
43 qualified energy generator only if the owner of the energy  
44 generator or the owner's corporate affiliates are not the owner

1 of or the corporate affiliate of the owner of the existing  
2 qualified energy generator.

3 F. To be eligible for the credit under this section, the  
4 taxpayer must apply to the department, on a form prescribed by  
5 the department, for certification of the credit. The department  
6 shall only accept applications beginning January 2 through  
7 January 31 of the year following the calendar year for which the  
8 credit is being requested. The application shall include:

9 1. The name, address and social security number or  
10 federal employer identification number of the applicant.

11 2. The location of the taxpayer's facility that produces  
12 electricity using renewable energy resources for which the  
13 credit is claimed.

14 3. The amount of the credit that is claimed.

15 4. The date the qualified energy generator began  
16 producing commercially marketable amounts of electricity.

17 5. Any additional information that the department  
18 requires.

19 G. The department shall review each application under  
20 subsection F of this section and certify to the taxpayer the  
21 amount of the credit that is authorized. The amount of the  
22 credit for any calendar year shall not exceed two million  
23 dollars per facility that produces electricity using renewable  
24 energy resources. Credits are allowed under this section and  
25 section 43-1083.02 on a first come, first served basis. The  
26 department shall not authorize tax credits under this section  
27 and section 43-1083.02 that exceed in the aggregate a total of  
28 twenty million dollars for any calendar year. The first time  
29 that a taxpayer submits a qualified application for a qualified  
30 energy generator under subsection F of this section, the  
31 department shall add the taxpayer's name to a credit  
32 authorization list that is maintained in the order in which  
33 qualified applications are first received by the department on  
34 behalf of the qualified energy generator. A taxpayer's position  
35 on the credit authorization list shall be determined in the  
36 first year the taxpayer submits an application under subsection  
37 F of this section for the qualified energy generator. The  
38 taxpayer's position on the credit authorization list for a  
39 particular qualified energy generator shall remain unchanged for  
40 the ten years that are specified in subsection B, paragraph 2 of  
41 this section or until a year in which the taxpayer fails to  
42 submit a timely application under subsection F of this section  
43 or otherwise fails to comply with this section. If a taxpayer  
44 is removed from the credit authorization list for a qualified  
45 energy generator, the taxpayer may establish a new position on

1 the credit authorization list in a subsequent year by filing a  
2 timely application for a qualified energy generator that  
3 qualifies for the credit. If an application is received that,  
4 if authorized, would require the department to exceed the twenty  
5 million dollar limit, the department shall grant the applicant  
6 only the remaining credit amount that would not exceed the  
7 twenty million dollar limit. After the department authorizes  
8 twenty million dollars in tax credits, the department shall deny  
9 any subsequent applications that are received for that calendar  
10 year. The department shall not authorize any additional tax  
11 credits that exceed the twenty million dollar limit even if the  
12 amounts that have been certified to any taxpayer were not  
13 claimed or a taxpayer otherwise fails to meet the requirements  
14 to claim the additional credit.

15 H. Co-owners of a qualified energy generator, including  
16 corporate partners in a partnership and members of a limited  
17 liability company, may each claim the pro rata share of the  
18 credit allowed under this section based on ownership interest.  
19 The total of the credits allowed all such owners of the  
20 qualified energy generator may not exceed the amount that would  
21 have been allowed for a sole owner of the generator.

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

28 J. The department shall adopt rules and publish and  
29 prescribe forms and procedures as necessary to effectuate the  
30 purposes of this section.

31 K. For the purposes of this section:

32 1. "Biomass" means organic material that is available on  
33 a renewable or recurring basis, including:

34 (a) Forest-related materials, including mill residues,  
35 logging residues, forest thinnings, slash, brush, low-commercial  
36 value materials or undesirable species, salt cedar and other  
37 phreatophyte or woody vegetation removed from river basins or  
38 watersheds and woody material harvested for the purpose of  
39 forest fire fuel reduction or forest health and watershed  
40 improvement.

41 (b) Agricultural-related materials, including orchard  
42 trees, vineyard, grain or crop residues, including straws and  
43 stover, aquatic plants and agricultural processed coproducts and  
44 waste products, including fats, oils, greases, whey and lactose.

1 (c) Animal waste, including manure and slaughterhouse and  
2 other processing waste.

3 (d) Solid woody waste materials, including landscape or  
4 right-of-way tree trimmings, rangeland maintenance residues,  
5 waste pallets, crates and manufacturing, construction and  
6 demolition wood wastes, excluding pressure-treated,  
7 chemically-treated or painted wood wastes and wood contaminated  
8 with plastic.

9 (e) Crops and trees planted for the purpose of being used  
10 to produce energy.

11 (f) Landfill gas, wastewater treatment gas and biosolids,  
12 including organic waste byproducts generated during the  
13 wastewater treatment process.

14 2. "Qualified energy generator" means a facility that has  
15 at least five megawatts generating capacity, that is located on  
16 land in this state owned or leased by the taxpayer, that  
17 produces electricity using a qualified energy resource and that  
18 sells that electricity to an unrelated entity, unless the  
19 electricity is sold to a public service corporation.

20 3. "Qualified energy resource" means a resource that  
21 generates electricity through the use of only the following  
22 energy sources:

23 (a) Solar light.

24 (b) Solar heat.

25 (c) Wind.

26 (d) Biomass.

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

29 43-1165. Credit for employment by qualified defense  
30 contractor

31 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
32 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
33 is allowed against the taxes imposed by this title for:

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

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

1 activities to employment by the taxpayer in exclusively private  
2 commercial activities.

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

6	1st year	\$2,500
7	2nd year	\$2,000
8	3rd year	\$1,500
9	4th year	\$1,000
10	5th year	\$ 500

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

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

21 1. Establish an employment baseline for the taxpayer  
22 based on a multiyear forecast of employment on United States  
23 department of defense contracts that was submitted to the  
24 department of defense before June 1, 1992. The annual average  
25 employment forecast for the first year the taxpayer qualified is  
26 the baseline. If the taxpayer did not make such a forecast  
27 before June 1, 1992, the baseline is the average annual  
28 employment as reported to the department of economic security  
29 during the preceding taxable year. If a taxpayer qualifies in  
30 the same year it relocates into this state, the taxpayer's  
31 baseline is zero.

32 2. For the first year of the credit, the taxpayer's net  
33 increase in average employment is the increase in employment  
34 reported to the department of economic security for the taxable  
35 year over the employment baseline.

36 3. For each succeeding year of the credit, the taxpayer's  
37 net increase in average employment is the increase in employment  
38 reported to the department of economic security for the taxable  
39 year over the preceding taxable year's average employment.

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

42 1. Prorate employment during the taxable year according  
43 to the date of transfer from defense to private commercial  
44 activities or the date of transfer from private commercial  
45 activities to defense.



1 pursuant to section 43-1165, subsection D, paragraph 1 from  
2 average annual employment as reported to the department of  
3 economic security for the taxable year, as follows:

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

9 2. Multiply the amount determined under paragraph 1 of  
10 this subsection by a percentage determined by dividing the  
11 taxpayer's total gross income from United States department of  
12 defense contracts apportioned to this state by the taxpayer's  
13 total gross income from all sources apportioned to this state.

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

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

28 Sec. 45. Section 43-1167, Arizona Revised Statutes, is  
29 amended to read:

30 43-1167. Credit for increased employment in military  
31 reuse zones; definition

32 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
33 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
34 is allowed against the taxes imposed by this title for net  
35 increases in employment by the taxpayer of full-time employees  
36 working in a military reuse zone, established under title 41,  
37 chapter 10, article 3, and who are primarily engaged in  
38 providing aviation or aerospace services or in manufacturing,  
39 assembling or fabricating aviation or aerospace products. The  
40 amount of the credit is a dollar amount allowed for each new  
41 employee, determined as follows:

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

1           1st year of employment                   \$ 500  
2           2nd year of employment                   \$1,000  
3           3rd year of employment                   \$1,500  
4           4th year of employment                   \$2,000  
5           5th year of employment                   \$2,500  
6           2. With respect to each dislocated military base  
7 employee:  
8           1st year of employment                   \$1,000  
9           2nd year of employment                   \$1,500  
10          3rd year of employment                   \$2,000  
11          4th year of employment                   \$2,500  
12          5th year of employment                   \$3,000  
13          B. If the allowable tax credit exceeds the taxes  
14 otherwise due under this title on the claimant's income, or if  
15 there are no taxes due under this title, the amount of the claim  
16 not used to offset the taxes under this title may be carried  
17 forward as a credit against subsequent years' income tax  
18 liability for the period, not to exceed five taxable years, if  
19 the business remains in the military reuse zone.  
20          C. The net increase in the number of employees for  
21 purposes of this section shall be determined by comparing the  
22 taxpayer's average employment in the military reuse zone during  
23 the taxable year with the taxpayer's previous year's fourth  
24 quarter employment in the zone, based on the taxpayer's report  
25 to the department of economic security for unemployment  
26 insurance purposes but considering only employment in the zone.  
27          D. Co-owners of a business, including corporate partners  
28 in a partnership, may each claim only the pro rata share of the  
29 credit allowed under this section based on the ownership  
30 interest. The total of the credits allowed all such owners may  
31 not exceed the amount that would have been allowed for a sole  
32 owner of the business.  
33          E. A credit is not allowed under this section with  
34 respect to an employee whose place of employment is relocated by  
35 the taxpayer from a location in this state to the military reuse  
36 zone unless the employee is engaged in aviation or aerospace  
37 services or in manufacturing, assembling or fabricating aviation  
38 or aerospace products and the taxpayer maintains at least the  
39 same number of employees in this state but outside the zone.  
40          F. A taxpayer who claims a credit under section 43-1161,  
41 43-1164.01 or 43-1165 may not claim a credit under this section  
42 with respect to the same employees.  
43          G. For the purposes of this section, "dislocated military  
44 base employee" means a civilian who previously had permanent  
45 full-time civilian employment on the military facility as of the

1 date the closure of the facility was finally determined under  
2 federal law, as certified by the Arizona commerce authority.

3 Sec. 46. Section 43-1167.01, Arizona Revised Statutes, is  
4 amended to read:

5 43-1167.01. Credit for employing national guard members

6 A. For taxable years beginning from and after December  
7 31, 2005 THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY  
8 MAJORITY VOTE, EXTENDS THIS DATE, a credit is allowed against  
9 the taxes imposed by this title for a taxpayer whose employee is  
10 a member of the Arizona national guard if the employee is placed  
11 on active duty. The amount of the credit is one thousand  
12 dollars for each employee who is placed on active duty by the  
13 Arizona national guard.

14 B. To qualify for the credit:

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

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

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

29 D. The credit under this section may be claimed only once  
30 by the taxpayer in any taxable year with respect to each  
31 employee who is placed on active duty by the Arizona national  
32 guard, but may be claimed again for that employee in a  
33 subsequent taxable year if that employee remains on active duty  
34 or is placed again on active duty in a subsequent taxable year.

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

40 Sec. 47. Section 43-1168, Arizona Revised Statutes, as  
41 amended by Laws 2011, second special session, chapter 1, section  
42 113, is amended to read:

43 43-1168. Credit for increased research activities

44 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
45 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit

1 is allowed against the taxes imposed by this title in an amount  
2 determined pursuant to section 41 of the internal revenue code,  
3 except that:

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

5 (a) Add:

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

9 (ii) The basic research payments determined under section  
10 41(e)(1)(A) of the internal revenue code.

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

14 (c) If the sum computed under subdivision (a) is over two  
15 million five hundred thousand dollars, the credit is equal to  
16 six hundred thousand dollars plus fifteen per cent of any amount  
17 exceeding two million five hundred thousand dollars, except  
18 that:

19 (i) For taxable years beginning from and after December  
20 31, 2000 through December 31, 2001, the credit shall not exceed  
21 one million five hundred thousand dollars.

22 (ii) For taxable years beginning from and after December  
23 31, 2001 through December 31, 2002, the credit shall not exceed  
24 two million five hundred thousand dollars.

25 (d) For taxable years beginning from and after December  
26 31, 2011, an additional credit amount is allowed if the taxpayer  
27 made basic research payments during the taxable year to a  
28 university under the jurisdiction of the Arizona board of  
29 regents. The additional credit amount is equal to ten per cent  
30 of the basic research payments that constitute excess expenses  
31 for the taxable year over the base amount. The department shall  
32 not allow credit amounts under this subdivision and section  
33 43-1074.01, subsection A, paragraph 1, subdivision (c) that  
34 exceed, in the aggregate, a combined total of ten million  
35 dollars in any calendar year. Subject to that limit, on  
36 application by the taxpayer, the department shall preapprove  
37 credit amounts under this subdivision and section 43-1074.01,  
38 subsection A, paragraph 1, subdivision (c) based on priority  
39 placement established by the date that the taxpayer filed the  
40 application. Notwithstanding subsections B and D of this  
41 section, any amount of the additional credit under this  
42 subdivision that exceeds the taxes otherwise due under this  
43 title is not refundable, but may be carried forward to the next  
44 five consecutive taxable years. FOR THE PURPOSES OF THIS

1           SUBDIVISION, "BASIC RESEARCH PAYMENT" HAS THE SAME MEANING  
2           PRESCRIBED BY SECTION 41(e) OF THE INTERNAL REVENUE CODE.

3           2. Qualified research includes only research conducted in  
4           this state including research conducted at a university in this  
5           state and paid for by the taxpayer.

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

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

11          5. The termination provisions of section 41 of the  
12          internal revenue code do not apply.

13          B. Except as provided by subsection D of this section, if  
14          the allowable credit under this section exceeds the taxes  
15          otherwise due under this title on the claimant's income, or if  
16          there are no taxes due under this title, the amount of the  
17          credit not used to offset taxes may be carried forward to the  
18          next fifteen consecutive taxable years. The amount of credit  
19          carryforward from taxable years beginning from and after  
20          December 31, 2000 through December 31, 2002 that may be used  
21          under this subsection in any taxable year may not exceed the  
22          taxpayer's tax liability under this title or five hundred  
23          thousand dollars, whichever is less, minus the credit under this  
24          section for the current taxable year's qualified research  
25          expenses. The amount of credit carryforward from taxable years  
26          beginning from and after December 31, 2002 that may be used  
27          under this subsection in any taxable year may not exceed the  
28          taxpayer's tax liability under this title minus the credit under  
29          this section for the current taxable year's qualified research  
30          expenses. A taxpayer that carries forward any amount of credit  
31          under this subsection may not thereafter claim a refund of any  
32          amount of the credit under subsection D of this section.

33          C. If a taxpayer has qualified research expenses that are  
34          carried forward from taxable years beginning before January 1,  
35          2001, the amount of the expenses carried forward shall be  
36          converted to a credit carryforward by multiplying the amount of  
37          the qualified expenses carried forward by twenty per cent. A  
38          credit carryforward determined under this subsection may be  
39          carried forward to not more than fifteen years from the year in  
40          which the expenses were incurred. The amount of credit  
41          carryforward from taxable years beginning before January 1, 2001  
42          that may be used under this subsection in any taxable year may  
43          not exceed the taxpayer's tax liability under this title or five  
44          hundred thousand dollars, whichever is less, minus the credit  
45          under this section for the current taxable year's qualified

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

8 D. For taxable years beginning from and after December  
9 31, 2009, if a taxpayer who claims a credit under this section  
10 employs fewer than one hundred fifty persons in the taxpayer's  
11 trade or business and if the allowable credit under this section  
12 exceeds the taxes otherwise due under this title on the  
13 claimant's income, or if there are no taxes due under this  
14 title, in lieu of carrying the excess amount of credit forward  
15 to subsequent taxable years under subsection B of this section,  
16 the taxpayer may elect to receive a refund as follows:

17 1. The taxpayer must apply to the ~~department of commerce~~  
18 ARIZONA COMMERCE AUTHORITY for qualification for the refund  
19 pursuant to section 41-1507 and submit a copy of the ~~department~~  
20 ~~of commerce's~~ ARIZONA COMMERCE AUTHORITY'S certificate of  
21 qualification to the department of revenue with the taxpayer's  
22 income tax return.

23 2. The amount of the refund is limited to seventy-five  
24 per cent of the amount by which the allowable credit under this  
25 section exceeds the taxpayer's tax liability under this title  
26 for the taxable year. The remainder of the excess amount of the  
27 credit is waived.

28 3. The refund shall be paid in the manner prescribed by  
29 section 42-1118.

30 4. The refund is subject to setoff under section 42-1122.

31 5. If the department determines that a credit refunded  
32 pursuant to this subsection is incorrect or invalid, the excess  
33 credit issued may be treated as a tax deficiency pursuant to  
34 section 42-1108.

35 E. A taxpayer that claims a credit for increased research  
36 and development activity under this section shall not claim a  
37 credit under section 43-1164.02 for the same expenses.

38 Sec. 48. Section 43-1168, Arizona Revised Statutes, as  
39 amended by Laws 2011, second special session, chapter 1, section  
40 114, is amended to read:

41 43-1168. Credit for increased research activity

42 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2026, UNLESS  
43 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
44 is allowed against the taxes imposed by this title in an amount

1 determined pursuant to section 41 of the internal revenue code,  
2 except that:

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

4 (a) Add:

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

8 (ii) The basic research payments determined under section  
9 41(e)(1)(A) of the internal revenue code.

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

13 (c) If the sum computed under subdivision (a) is over two  
14 million five hundred thousand dollars, the credit is equal to  
15 five hundred thousand dollars plus eleven per cent of any amount  
16 exceeding two million five hundred thousand dollars, except  
17 that:

18 (i) For taxable years beginning from and after December  
19 31, 2000 through December 31, 2001, the credit shall not exceed  
20 one million five hundred thousand dollars.

21 (ii) For taxable years beginning from and after December  
22 31, 2001 through December 31, 2002, the credit shall not exceed  
23 two million five hundred thousand dollars.

24 (d) For taxable years beginning from and after December  
25 31, 2011, an additional credit amount is allowed if the taxpayer  
26 made basic research payments during the taxable year to a  
27 university under the jurisdiction of the Arizona board of  
28 regents. The additional credit amount is equal to ten per cent  
29 of the basic research payments that constitute excess expenses  
30 for the taxable year over the base amount. The department shall  
31 not allow credit amounts under this subdivision and section  
32 43-1074.01, subsection A, paragraph 1, subdivision (c) that  
33 exceed, in the aggregate, a combined total of ten million  
34 dollars in any calendar year. Subject to that limit, on  
35 application by the taxpayer, the department shall preapprove  
36 credit amounts under this subdivision and section 43-1074.01,  
37 subsection A, paragraph 1, subdivision (c) based on priority  
38 placement established by the date that the taxpayer filed the  
39 application. Notwithstanding subsections B and D of this  
40 section, any amount of the additional credit under this  
41 subdivision that exceeds the taxes otherwise due under this  
42 title is not refundable, but may be carried forward to the next  
43 five consecutive taxable years.

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

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

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

9           5. The termination provisions of section 41 of the  
10 internal revenue code do not apply.

11           B. Except as provided by subsection D of this section, if  
12 the allowable credit under this section exceeds the taxes  
13 otherwise due under this title on the claimant's income, or if  
14 there are no taxes due under this title, the amount of the  
15 credit not used to offset taxes may be carried forward to the  
16 next fifteen consecutive taxable years. The amount of credit  
17 carryforward from taxable years beginning from and after  
18 December 31, 2000 through December 31, 2002 that may be used  
19 under this subsection in any taxable year may not exceed the  
20 taxpayer's tax liability under this title or five hundred  
21 thousand dollars, whichever is less, minus the credit under this  
22 section for the current taxable year's qualified research  
23 expenses. The amount of credit carryforward from taxable years  
24 beginning from and after December 31, 2002 that may be used  
25 under this subsection in any taxable year may not exceed the  
26 taxpayer's tax liability under this title minus the credit under  
27 this section for the current taxable year's qualified research  
28 expenses. A taxpayer that carries forward any amount of credit  
29 under this subsection may not thereafter claim a refund of any  
30 amount of the credit under subsection D of this section.

31           C. If a taxpayer has qualified research expenses that are  
32 carried forward from taxable years beginning before January 1,  
33 2001, the amount of the expenses carried forward shall be  
34 converted to a credit carryforward by multiplying the amount of  
35 the qualified expenses carried forward by twenty per cent. A  
36 credit carryforward determined under this subsection may be  
37 carried forward to not more than fifteen years from the year in  
38 which the expenses were incurred. The amount of credit  
39 carryforward from taxable years beginning before January 1, 2001  
40 that may be used under this subsection in any taxable year may  
41 not exceed the taxpayer's tax liability under this title or five  
42 hundred thousand dollars, whichever is less, minus the credit  
43 under this section for the current taxable year's qualified  
44 research expenses. The total amount of credit carryforward from  
45 taxable years beginning before January 1, 2003 that may be used

1 in any taxable year under subsection B and this subsection may  
2 not exceed the taxpayer's tax liability under this title or five  
3 hundred thousand dollars, whichever is less, minus the credit  
4 under this section for the current taxable year's qualified  
5 research expenses.

6 D. For taxable years beginning from and after December  
7 31, 2009, if a taxpayer who claims a credit under this section  
8 employs fewer than one hundred fifty persons in the taxpayer's  
9 trade or business and if the allowable credit under this section  
10 exceeds the taxes otherwise due under this title on the  
11 claimant's income, or if there are no taxes due under this  
12 title, in lieu of carrying the excess amount of credit forward  
13 to subsequent taxable years under subsection B of this section,  
14 the taxpayer may elect to receive a refund as follows:

15 1. The taxpayer must apply to the department of commerce  
16 for qualification for the refund pursuant to section 41-1507 and  
17 submit a copy of the department of commerce's certificate of  
18 qualification to the department of revenue with the taxpayer's  
19 income tax return.

20 2. The amount of the refund is limited to seventy-five  
21 per cent of the amount by which the allowable credit under this  
22 section exceeds the taxpayer's tax liability under this title  
23 for the taxable year. The remainder of the excess amount of the  
24 credit is waived.

25 3. The refund shall be paid in the manner prescribed by  
26 section 42-1118.

27 4. The refund is subject to setoff under section 42-1122.

28 5. If the department determines that a credit refunded  
29 pursuant to this subsection is incorrect or invalid, the excess  
30 credit issued may be treated as a tax deficiency pursuant to  
31 section 42-1108.

32 E. A taxpayer that claims a credit for increased research  
33 and development activity under this section shall not claim a  
34 credit under section 43-1164.02 for the same expenses.

35 Sec. 49. Section 43-1170, Arizona Revised Statutes, is  
36 amended to read:

37 43-1170. Credit for pollution control equipment

38 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
39 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
40 is allowed against the taxes imposed by this title for expenses  
41 that the taxpayer incurred during the taxable year to purchase  
42 real or personal property that is used in the taxpayer's trade  
43 or business in this state to control or prevent pollution. The  
44 amount of the credit is equal to ten per cent of the purchase  
45 price.

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

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

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

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

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

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

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

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

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



1           Sec. 51. Section 43-1175, Arizona Revised Statutes, is  
2 amended to read:

3           43-1175. Credit for employment of temporary assistance  
4           for needy families recipients

5           A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
6 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
7 is allowed against the taxes imposed by this title for net  
8 increases in qualified employment by the taxpayer of recipients  
9 of temporary assistance for needy families as defined in section  
10 46-101 who are residents of this state. The amount of the  
11 credit is equal to the sum of the following:

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

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

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

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

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

30           1. All of the employees with respect to whom a credit is  
31 claimed must reside in this state and must be recipients of  
32 temporary assistance for needy families as defined in section  
33 46-101 at the time the employee is hired.

34           2. A qualified employment position must meet all of the  
35 following requirements:

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

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

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

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

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

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

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

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

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

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

31 Sec. 52. Section 43-1176, Arizona Revised Statutes, is  
32 amended to read:

33 43-1176. Credit for solar hot water heater plumbing stub  
34 outs and electric vehicle recharge outlets  
35 installed in houses constructed by taxpayer

36 A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2019, UNLESS  
37 THE LEGISLATURE, BY MAJORITY VOTE, EXTENDS THIS DATE, a credit  
38 is allowed against the taxes imposed by this title for costs  
39 incurred during the taxable year of installing or including in  
40 one or more houses or dwelling units located in this state and  
41 constructed by the taxpayer one or more:

42 1. Solar hot water plumbing stub outs. To qualify for  
43 the credit the stub out must:

1 (a) Include two insulated three-fourths inch copper pipes  
2 and at least two pairs of wires for monitoring and control  
3 purposes that project from the dwelling roof or other suitable  
4 location and that are connected to the domestic hot water  
5 transport and storage system.

6 (b) Be located and configured to allow sufficient solar  
7 access and exposure and to allow ready installation of solar  
8 water heating devices without further expense or effort to  
9 reach, use or serve the domestic hot water system of the house  
10 or dwelling UNIT.

11 2. Electric vehicle recharge outlets. To qualify for the  
12 credit, the outlet must be connected to the utility system by a  
13 dedicated line that:

14 (a) Is capable of operating at normal secondary voltages.

15 (b) Meets applicable local building safety codes.

16 (c) Is commensurate and consistent with electric vehicle  
17 recharging needs and methods.

18 B. The credit shall not exceed seventy-five dollars for  
19 each installation for each separate house or dwelling unit.

20 C. The taxpayer may elect to transfer a credit under this  
21 section to a purchaser or transferee of the house or dwelling  
22 unit. If the taxpayer elects to transfer the credit, the  
23 taxpayer shall deliver to the purchaser or transferee a written  
24 statement that the taxpayer has elected not to claim the credit  
25 and that the purchaser or transferee may claim the credit,  
26 subject to the conditions and limitations prescribed by this  
27 section.

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

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

39 F. The credit allowed under this section is in lieu of  
40 any expenses taken for installing solar stub outs or electric  
41 vehicle recharge outlets ~~to reach~~ IN COMPUTING Arizona taxable  
42 income.



1 property the property shall only be used as a school or as a  
2 site for the construction of a school, subject to subsection I  
3 or J of this section.

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

7 3. The conveyance shall not violate section 15-341,  
8 subsection D or section 15-183, subsection U.

9 C. For the purposes of this section, the value of the  
10 donated property is the property's fair market value as  
11 determined in an appraisal as defined in section 32-3601 that is  
12 conducted by an independent party and that is paid for by the  
13 donee.

14 D. If the property is donated by co-owners, including  
15 corporate partners in a partnership, each donor may claim only  
16 the pro rata share of the allowable credit under this section  
17 based on the ownership interest. The total of the credits  
18 allowed all co-owner donors may not exceed the allowable credit.

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

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

28 G. On written request by the donee, the donor shall  
29 disclose in writing to the donee the amount of the credit  
30 allowed pursuant to this section with respect to the property  
31 received by the donee.

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

34 I. If the donee is a school district:

35 1. The district shall notify the school facilities board  
36 established by section 15-2001 and furnish the board with any  
37 information the board requests regarding the donation. A school  
38 district shall not accept a donation pursuant to this section  
39 unless the school facilities board has reviewed the proposed  
40 donation and has issued a written determination that the real  
41 property and improvements are suitable as a school site or as a  
42 school. The school facilities board shall issue a determination  
43 that the real property and improvements are not suitable as a  
44 school site or as a school if the expenses that would be

1 necessary to make the property suitable as a school site or as a  
2 school exceed the value of the proposed donation.

3 2. The district may sell any donated property pursuant to  
4 section 15-342, but the proceeds from the sale shall only be  
5 used for capital projects. The school facilities board shall  
6 withhold an amount that corresponds to the amount of the  
7 proceeds from any monies that would otherwise be due the school  
8 district from the school facilities board pursuant to section  
9 15-2041.

10 J. If the donee is a charter school:

11 1. The charter school shall:

12 (a) Immediately notify the sponsor of the charter school  
13 by certified mail and shall furnish the sponsor with any  
14 information requested by the sponsor regarding the donation  
15 during the ten year period after the conveyance is recorded.

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

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

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

24 (iii) Establishes a charter school on the property but  
25 subsequently ceases to operate the charter school on the  
26 property for twenty-four consecutive months or fails to provide  
27 instruction to pupils on the property for twenty-four  
28 consecutive months.

29 2. The charter school, or a successor in interest, shall  
30 pay to the state treasurer the amount of the credit allowed  
31 under this section, or if that amount is unknown, the amount of  
32 the allowable credit under this section, if any of the  
33 circumstances listed in paragraph 1, subdivision (b) of this  
34 subsection ~~occur~~ OCCURS. If the amount is not paid within one  
35 year after the treasurer receives notice under paragraph 1,  
36 subdivision (b) of this subsection, a penalty and interest shall  
37 be added, determined pursuant to title 42, chapter 1, article 3.

38 3. A tax credit under this section constitutes a lien on  
39 the property, which the donor must record along with the title  
40 to the property to qualify for the credit. The amount of the  
41 lien is the amount of the allowable credit under this section,  
42 adjusted according to the average change in the GDP price  
43 deflator, as defined in section 41-563, for each calendar year  
44 since the donation, but not exceeding twelve and one-half per  
45 cent more than the allowable credit. The lien is subordinate to

1 any liens securing the financing of the school construction.  
2 The lien is extinguished on the earliest of the following:

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

6 (b) On payment to the state treasurer by the donee  
7 charter school, or by a successor in interest, of the amount of  
8 the allowable credit under this section, either voluntarily or  
9 as required by paragraph 2 of this subsection. After the  
10 required amount is paid, the charter school or successor in  
11 interest may request the state treasurer to release the lien.

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

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

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

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

22 Sec. 55. Section 43-1183, Arizona Revised Statutes, is  
23 amended to read:

24 43-1183. Credit for contributions to school tuition  
25 organization; definition

26 A. Beginning from and after June 30, 2006 AND FOR TAXABLE  
27 YEARS THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY  
28 MAJORITY VOTE, EXTENDS THIS DATE, a credit is allowed against  
29 the taxes imposed by this title for the amount of voluntary cash  
30 contributions made by the taxpayer during the taxable year to a  
31 school tuition organization that is certified pursuant to  
32 chapter 15 of this title at the time of donation.

33 B. The amount of the credit is the total amount of the  
34 taxpayer's contributions for the taxable year under subsection A  
35 of this section and is preapproved by the department of revenue  
36 pursuant to subsection D of this section.

37 C. The department of revenue:

38 1. Shall not allow tax credits under this section and  
39 section 20-224.06 that exceed in the aggregate a combined total  
40 of ten million dollars in any fiscal year. Beginning in fiscal  
41 year 2007-2008, the aggregate dollar amount of the tax credit  
42 cap from the previous fiscal year shall be annually increased by  
43 twenty per cent.

44 2. Shall preapprove tax credits under this section and  
45 section 20-224.06 subject to subsection D of this section.

1           3. Shall allow the tax credits under this section and  
2 section 20-224.06 on a first come, first served basis.

3           D. For the purposes of subsection C, paragraph 2 of this  
4 section, before making a contribution to a school tuition  
5 organization, the taxpayer under this title or title 20 must  
6 notify the school tuition organization of the total amount of  
7 contributions that the taxpayer intends to make to the school  
8 tuition organization. Before accepting the contribution, the  
9 school tuition organization shall request preapproval from the  
10 department of revenue for the taxpayer's intended contribution  
11 amount. The department of revenue shall preapprove or deny the  
12 requested amount within twenty days after receiving the request  
13 from the school tuition organization. If the department of  
14 revenue preapproves the request, the school tuition organization  
15 shall immediately notify the taxpayer, and the department of  
16 insurance in the case of a credit under section 20-224.06, that  
17 the requested amount was preapproved by the department of  
18 revenue. In order to receive a tax credit under this  
19 subsection, the taxpayer shall make the contribution to the  
20 school tuition organization within ten days after receiving  
21 notice from the school tuition organization that the requested  
22 amount was preapproved. If the school tuition organization does  
23 not receive the preapproved contribution from the taxpayer  
24 within the required ten days, the school tuition organization  
25 shall immediately notify the department of revenue, and the  
26 department of insurance in the case of a credit under section  
27 20-224.06, and the department of revenue shall no longer include  
28 this preapproved contribution amount when calculating the limit  
29 prescribed in subsection C, paragraph 1 of this section.

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

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

41           G. The credit allowed by this section is in lieu of any  
42 deduction pursuant to section 170 of the internal revenue code  
43 and taken for state tax purposes.

1 H. A taxpayer shall not claim a credit under this section  
2 and also under section 43-1184 with respect to the same  
3 contribution.

4 I. The tax credit is not allowed if the taxpayer  
5 designates the taxpayer's contribution to the school tuition  
6 organization for the direct benefit of any specific student.

7 J. The department of revenue, with the cooperation of the  
8 department of insurance, shall adopt rules and publish and  
9 prescribe forms and procedures necessary for the administration  
10 of this section.

11 K. For the purposes of this section, "qualified school":

12 1. Means a nongovernmental primary school or secondary  
13 school:

14 (a) That is located in this state, that does not  
15 discriminate on the basis of race, color, handicap, familial  
16 status or national origin and that satisfies the requirements  
17 prescribed by law for private schools in this state on January  
18 1, 2005.

19 (b) That annually administers and makes available to the  
20 public the aggregate test scores of its students on a nationally  
21 standardized norm-referenced achievement test, preferably the  
22 Arizona instrument to measure standards test administered  
23 pursuant to section 15-741.

24 (c) That requires all teaching staff and any personnel  
25 that have unsupervised contact with students to be  
26 fingerprinted.

27 2. Does not include a charter school or programs operated  
28 by charter schools.

29 Sec. 56. Section 43-1184, Arizona Revised Statutes, is  
30 amended to read:

31 43-1184. Credit for contributions to school tuition  
32 organization; displaced students; students  
33 with disabilities; definition

34 A. Beginning from and after June 30, 2009 **AND FOR TAXABLE**  
35 **YEARS THROUGH DECEMBER 31, 2019, UNLESS THE LEGISLATURE, BY**  
36 **MAJORITY VOTE, EXTENDS THIS DATE,** a credit is allowed against  
37 the taxes imposed by this title for the amount of voluntary cash  
38 contributions made by the taxpayer during the taxable year to a  
39 school tuition organization that is certified pursuant to  
40 chapter 15 of this title at the time of donation.

41 B. The amount of the credit is the total amount of the  
42 taxpayer's contributions for the taxable year under subsection A  
43 of this section and is preapproved by the department of revenue  
44 pursuant to subsection D of this section.

1           C. The department of revenue:  
2           1. Shall not allow tax credits under this section and  
3 section 20-224.07 that exceed in the aggregate a combined total  
4 of five million dollars in any fiscal year.  
5           2. Shall preapprove tax credits under this section and  
6 section 20-224.07 subject to subsection D of this section.  
7           3. Shall allow the tax credits under this section and  
8 section 20-224.07 on a first come, first served basis.  
9           D. For the purposes of subsection C, paragraph 2 of this  
10 section, before making a contribution to a school tuition  
11 organization, the taxpayer under this title or title 20 must  
12 notify the school tuition organization of the total amount of  
13 contributions that the taxpayer intends to make to the school  
14 tuition organization. Before accepting the contribution, the  
15 school tuition organization shall request preapproval from the  
16 department of revenue for the taxpayer's intended contribution  
17 amount. The department of revenue shall preapprove or deny the  
18 requested amount within twenty days after receiving the request  
19 from the school tuition organization. If the department of  
20 revenue preapproves the request, the school tuition organization  
21 shall immediately notify the taxpayer that the requested amount  
22 was preapproved by the department of revenue. In order to  
23 receive a tax credit under this subsection, the taxpayer shall  
24 make the contribution to the school tuition organization within  
25 ten days after receiving notice from the school tuition  
26 organization that the requested amount was preapproved. If the  
27 school tuition organization does not receive the preapproved  
28 contribution from the taxpayer within the required ten days, the  
29 school tuition organization shall immediately notify the  
30 department of revenue and the department shall no longer include  
31 this preapproved contribution amount when calculating the limit  
32 prescribed in subsection C, paragraph 1 of this section.  
33           E. If the allowable tax credit exceeds the taxes  
34 otherwise due under this title on the claimant's income, or if  
35 there are no taxes due under this title, the taxpayer may carry  
36 the amount of the claim not used to offset the taxes under this  
37 title forward for not more than five consecutive taxable years'  
38 income tax liability.  
39           F. Co-owners of a business, including corporate partners  
40 in a partnership, may each claim only the pro rata share of the  
41 credit allowed under this section based on the ownership  
42 interest. The total of the credits allowed all such owners may  
43 not exceed the amount that would have been allowed a sole owner.

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

4           H. A taxpayer shall not claim a credit under this section  
5 and also under section 43-1183 with respect to the same  
6 contribution.

7           I. The tax credit is not allowed if the taxpayer  
8 designates the taxpayer's contribution to the school tuition  
9 organization for the direct benefit of any specific student.

10          J. The department of revenue shall adopt rules necessary  
11 for the administration of this section.

12          K. For the purposes of this section, "qualified school":

13           1. Means a nongovernmental primary school or secondary  
14 school or a preschool for handicapped students that is located  
15 in this state, that does not discriminate on the basis of race,  
16 color, handicap, familial status or national origin and that  
17 satisfies the requirements prescribed by law for private schools  
18 in this state on January 1, 2009.

19           2. Does not include a charter school or programs operated  
20 by charter schools.

21          Sec. 57. Effective date

22           A. Section 43-1074.01, Arizona Revised Statutes, as  
23 amended by Laws 2011, second special session, chapter 1, section  
24 97 and this act, is effective for taxable years beginning from  
25 and after December 31, 2017.

26           B. Section 43-1168, Arizona Revised Statutes, as amended  
27 by Laws 2011, second special session, chapter 1, section 114 and  
28 this act, is effective for taxable years beginning from and  
29 after December 31, 2017.

30          2. The Secretary of State shall submit this proposition to the voters  
31 at the next general election as provided by article IV, part 1, section 1,  
32 Constitution of Arizona.