

State of Arizona  
Senate  
Fifty-first Legislature  
Second Regular Session  
2014

# SENATE BILL 1301

## AN ACT

AMENDING SECTION 42-2003, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST REGULAR SESSION, CHAPTER 40, SECTION 2, CHAPTER 114, SECTION 6 AND CHAPTER 222, SECTION 3 AND LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 3; REPEALING SECTION 42-2003, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 2; AMENDING SECTION 42-5009, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 40, SECTION 3; REPEALING SECTION 42-5009, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 5; AMENDING SECTION 42-5010, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 6; AMENDING SECTIONS 42-5039 AND 42-5069, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5075, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST REGULAR SESSION, CHAPTER 153, SECTION 1 AND LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 6; REPEALING SECTION 42-5075, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 15; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST REGULAR SESSION, CHAPTER 27, SECTION 2, CHAPTER 120, SECTION 2, CHAPTER 153, SECTION 2 AND CHAPTER 236, SECTION 6 AND LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 8; REPEALING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 20; AMENDING SECTIONS 42-12001, 42-12101, 43-222, 43-1021 AND 43-1022, ARIZONA REVISED STATUTES; REPEALING SECTIONS 43-1024 AND 43-1028, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1029, 43-1032 AND 43-1042, ARIZONA REVISED STATUTES; REPEALING SECTIONS 43-1081.02, 43-1082 AND 43-1090.01, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1121, 43-1122 AND 43-1123, ARIZONA REVISED STATUTES; REPEALING SECTION 43-1124, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1127 AND 43-1130.01, ARIZONA REVISED STATUTES; REPEALING SECTIONS 43-1180 AND 43-1182, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1332, 43-1333, 43-1504 AND 43-1603, ARIZONA REVISED STATUTES; RELATING TO TAX CORRECTIONS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-2003, Arizona Revised Statutes, as amended by  
3 Laws 2013, first regular session, chapter 40, section 2, chapter 114, section  
4 6 and chapter 222, section 3 and Laws 2013, first special session, chapter 9,  
5 section 3, is amended to read:

6 42-2003. Authorized disclosure of confidential information

7 A. Confidential information relating to:

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

12 2. A corporate taxpayer may be disclosed to any principal officer, any  
13 person designated by a principal officer or any person designated in a  
14 resolution by the corporate board of directors or other similar governing  
15 body.

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

19 4. An estate may be disclosed to the personal representative of the  
20 estate and to any heir, next of kin or beneficiary under the will of the  
21 decedent if the department finds that the heir, next of kin or beneficiary  
22 has a material interest which will be affected by the confidential  
23 information.

24 5. A trust may be disclosed to the trustee or trustees, jointly or  
25 separately, and to the grantor or any beneficiary of the trust if the  
26 department finds that the grantor or beneficiary has a material interest that  
27 will be affected by the confidential information.

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

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

33 B. Confidential information may be disclosed to:

34 1. Any employee of the department whose official duties involve tax  
35 administration.

36 2. The office of the attorney general solely for its use in  
37 preparation for, or in an investigation that may result in, any proceeding  
38 involving tax administration before the department or any other agency or  
39 board of this state, or before any grand jury or any state or federal court.

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

1           4. Other state tax officials whose official duties require the  
2 disclosure for proper tax administration purposes if the information is  
3 sought in connection with an investigation or any other proceeding conducted  
4 by the official. Any disclosure is limited to information of a taxpayer who  
5 is being investigated or who is a party to a proceeding conducted by the  
6 official.

7           5. The following agencies, officials and organizations, if they grant  
8 substantially similar privileges to the department for the type of  
9 information being sought, pursuant to statute and a written agreement between  
10 the department and the foreign country, agency, state, Indian tribe or  
11 organization:

12           (a) The United States internal revenue service, alcohol and tobacco  
13 tax and trade bureau of the United States treasury, United States bureau of  
14 alcohol, tobacco, firearms and explosives of the United States department of  
15 justice, United States drug enforcement agency and federal bureau of  
16 investigation.

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

18           (c) An organization of states, federation of tax administrators or  
19 multistate tax commission that operates an information exchange for tax  
20 administration purposes.

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

24           (e) An agency, official or organization of an Indian tribal government  
25 with responsibilities comparable to the responsibilities of the agencies,  
26 officials or organizations identified in subdivision (a), (b) or (c) of this  
27 paragraph.

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

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

32           (a) The processing, storage, transmission, destruction and  
33 reproduction of the information.

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

36           (c) The collection of the taxpayer's civil liability.

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

40           (a) Regarding income tax or withholding tax.

41           (b) On any tax issue relating to information associated with the  
42 reporting of income tax or withholding tax.

43           9. The United States treasury inspector general for tax administration  
44 for the purpose of reporting a violation of internal revenue code section

1 7213A (26 United States Code section 7213A), unauthorized inspection of  
2 returns or return information.

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

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

8 12. The Arizona commerce authority for its use in:

9 (a) Qualifying renewable energy operations for the tax incentives  
10 under sections 42-12006, 43-1083.01 and 43-1164.01.

11 (b) Qualifying businesses with a qualified facility for income tax  
12 credits under sections 43-1083.03 and 43-1164.04.

13 (c) Fulfilling its annual reporting responsibility pursuant to section  
14 41-1511, subsections U and V and section 41-1512, subsections U and V.

15 (d) Certifying computer data centers for tax relief under section  
16 41-1519.

17 13. A prosecutor for purposes of section 32-1164, subsection C.

18 14. The state fire marshal for use in determining compliance with and  
19 enforcing title 41, chapter 16, article 3.1.

20 15. The department of transportation for its use in administering  
21 taxes, surcharges and penalties prescribed by title 28.

22 16. The Arizona health care cost containment system administration for  
23 its use in administering nursing facility provider assessments.

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

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

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

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

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

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

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

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

43 E. The department, on the request of any person, shall provide the  
44 names and addresses of bingo licensees as defined in section 5-401, verify  
45 whether or not a person has a privilege license and number, a distributor's

1 license and number or a withholding license and number or disclose the  
2 information to be posted on the department's website or otherwise publicly  
3 accessible pursuant to section 42-1124, subsection F and section 42-3201,  
4 subsection A.

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

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

18 H. Confidential information relating to transaction privilege tax, use  
19 tax, severance tax, jet fuel excise and use tax and any other tax collected  
20 by the department on behalf of ~~the county~~ ANY JURISDICTION may be disclosed  
21 to any county, city or town tax official if the information relates to a  
22 taxpayer who is or may be taxable by ~~the~~ A county, city or town OR WHO MAY BE  
23 SUBJECT TO AUDIT BY THE DEPARTMENT PURSUANT TO SECTION 42-6002. Any taxpayer  
24 information released by the department to the county, city or town:

25 1. May only be used for internal purposes, INCLUDING AUDITS.

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

33 I. The department may disclose statistical information gathered from  
34 confidential information if it does not disclose confidential information  
35 attributable to any one taxpayer. The department may disclose statistical  
36 information gathered from confidential information, even if it discloses  
37 confidential information attributable to a taxpayer, to:

38 1. The state treasurer in order to comply with the requirements of  
39 section 42-5029, subsection A, paragraph 3.

40 2. The joint legislative income tax credit review committee and the  
41 joint legislative budget committee staff in order to comply with the  
42 requirements of section 43-221.

43 J. The department may disclose the aggregate amounts of any tax  
44 credit, tax deduction or tax exemption enacted after January 1, 1994.  
45 Information subject to disclosure under this subsection shall not be

1 disclosed if a taxpayer demonstrates to the department that such information  
2 would give an unfair advantage to competitors.

3 K. Except as provided in section 42-2002, subsection C, confidential  
4 information, described in section 42-2001, paragraph 1, subdivision (a), item  
5 (ii), may be disclosed to law enforcement agencies for law enforcement  
6 purposes.

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

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

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

18 O. This section does not prohibit the disclosure by the department of  
19 any information or documents submitted to the department by a bingo licensee.  
20 Before disclosing the information the department shall obtain the name and  
21 address of the person requesting the information.

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

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

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

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

39 T. The department shall release confidential information as requested  
40 by the attorney general for purposes of determining compliance with and  
41 enforcing section 44-7101, the master settlement agreement referred to  
42 therein and subsequent agreements to which the state is a party that amend or  
43 implement the master settlement agreement. Information disclosed under this  
44 subsection is limited to luxury tax information relating to tobacco

1 manufacturers, distributors, wholesalers and retailers and information  
2 collected by the department pursuant to section 44-7101(2)(j).

3 U. For proceedings before the department, the office of administrative  
4 hearings, the board of tax appeals or any state or federal court involving  
5 penalties that were assessed against a return preparer, an electronic return  
6 preparer or a payroll service company pursuant to section 42-1103.02,  
7 42-1125.01 or 43-419, confidential information may be disclosed only before  
8 the judge or administrative law judge adjudicating the proceeding, the  
9 parties to the proceeding and the parties' representatives in the proceeding  
10 prior to its introduction into evidence in the proceeding. The confidential  
11 information may be introduced as evidence in the proceeding only if the  
12 taxpayer's name, the names of any dependents listed on the return, all social  
13 security numbers, the taxpayer's address, the taxpayer's signature and any  
14 attachments containing any of the foregoing information are redacted and if  
15 either:

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

18 2. Such return or return information relates or may relate to a  
19 transactional relationship between a person who is a party to the proceeding  
20 and the taxpayer which directly affects the resolution of an issue in the  
21 proceeding.

22 3. The method of payment of the taxpayer's withholding tax liability  
23 or the method of filing the taxpayer's withholding tax return is an issue for  
24 the period.

25 V. The department may disclose to the attorney general confidential  
26 information received under section 44-7111 and requested by the attorney  
27 general for purposes of determining compliance with and enforcing section  
28 44-7111. The department and attorney general shall share with each other the  
29 information received under section 44-7111, and may share the information  
30 with other federal, state or local agencies only for the purposes of  
31 enforcement of section 13-3711, 36-798.06, 44-7101 or 44-7111 or  
32 corresponding laws of other states.

33 W. The department may provide the name and address of qualifying  
34 hospitals and qualifying health care organizations, as defined in section  
35 42-5001, to a business classified and reporting transaction privilege tax  
36 under the utilities classification.

37 X. The department may disclose to the attorney general confidential  
38 information requested by the attorney general for the purposes of determining  
39 compliance with and enforcing section 13-3711 or 36-798.06.

40 Y. The department may disclose to an official of any city, town or  
41 county in a current agreement or considering a prospective agreement with the  
42 department as described in section 42-5032.02, subsection F any information  
43 relating to amounts subject to distribution required by section 42-5032.02.  
44 Information disclosed by the department under this subsection:



1 accuracy and completeness of the information, the purchaser is liable in an  
2 amount equal to any tax, penalty and interest that the seller would have been  
3 required to pay under this article if the seller had not complied with  
4 subsection A of this section. Payment of the amount under this subsection  
5 exempts the purchaser from liability for any tax imposed under article 4 of  
6 this chapter. The amount shall be treated as tax revenues collected from the  
7 seller in order to designate the distribution base for purposes of section  
8 42-5029.

9 E. If a seller is entitled to a deduction by complying with subsection  
10 B of this section, the department may require the purchaser to establish the  
11 accuracy and completeness of the information provided to the seller that  
12 entitled the seller to the deduction. If the purchaser cannot establish the  
13 accuracy and completeness of the information, the purchaser is liable in an  
14 amount equal to any tax, penalty and interest that the seller would have been  
15 required to pay under this article if the seller had not complied with  
16 subsection B of this section. Payment of the amount under this subsection  
17 exempts the purchaser from liability for any tax imposed under article 4 of  
18 this chapter. The amount shall be treated as tax revenues collected from the  
19 seller in order to designate the distribution base for purposes of section  
20 42-5029.

21 F. The department may prescribe a form for a certificate used to  
22 establish entitlement to the deductions described in section 42-5061,  
23 subsection A, paragraph ~~47~~ 46 and section 42-5063, subsection B, paragraph 3.  
24 Under rules the department may prescribe, the department may also require  
25 additional information for the seller to be entitled to the deduction. If a  
26 seller is entitled to the deductions described in section 42-5061, subsection  
27 A, paragraph ~~47~~ 46 and section 42-5063, subsection B, paragraph 3, the  
28 department may require the purchaser who executed the certificate to  
29 establish the accuracy and completeness of the information contained in the  
30 certificate that would entitle the seller to the deduction. If the purchaser  
31 cannot establish the accuracy and completeness of the information, the  
32 purchaser is liable in an amount equal to any tax, penalty and interest that  
33 the seller would have been required to pay under this article. Payment of  
34 the amount under this subsection exempts the purchaser from liability for any  
35 tax imposed under article 4 of this chapter. The amount shall be treated as  
36 tax revenues collected from the seller in order to designate the distribution  
37 base for purposes of section 42-5029.

38 G. If a seller claims a deduction under section 42-5061, subsection A,  
39 paragraph 25 and establishes entitlement to the deduction with an exemption  
40 letter that the purchaser received from the department and the exemption  
41 letter was based on a contingent event, the department may require the  
42 purchaser that received the exemption letter to establish the satisfaction of  
43 the contingent event within a reasonable time. If the purchaser cannot  
44 establish the satisfaction of the event, the purchaser is liable in an amount  
45 equal to any tax, penalty and interest that the seller would have been

1 required to pay under this article if the seller had not been furnished the  
2 exemption letter. Payment of the amount under this subsection exempts the  
3 purchaser from liability for any tax imposed under article 4 of this chapter.  
4 The amount shall be treated as tax revenues collected from the seller in  
5 order to designate the distribution base for purposes of section 42-5029.  
6 For the purposes of this subsection, "reasonable time" means a time  
7 limitation that the department determines and that does not exceed the time  
8 limitations pursuant to section 42-1104.

9 H. The department shall prescribe forms for certificates used to  
10 establish the satisfaction of the criteria necessary to qualify the sale of a  
11 motor vehicle for the deductions described in section 42-5061, subsection A,  
12 paragraph 14, paragraph 28, subdivision (a) and paragraph ~~45~~ 44 and  
13 subsection U. Except as provided in subsection J of this section, to  
14 establish entitlement to these deductions, a motor vehicle dealer shall  
15 retain:

16 1. A valid certificate as prescribed by this subsection completed by  
17 the purchaser and obtained prior to the issuance of the nonresident  
18 registration permit authorized by section 28-2154.

19 2. A copy of the nonresident registration permit authorized by section  
20 28-2154.

21 3. A legible copy of a current valid driver license issued to the  
22 purchaser by another state or foreign country that indicates an address  
23 outside of this state. For the sale of a motor vehicle to a nonresident  
24 entity, the entity's representative must have a current valid driver license  
25 issued by the same jurisdiction as that in which the entity is located.

26 4. For the purposes of the deduction provided by section 42-5061,  
27 subsection A, paragraph 14, a certificate documenting the delivery of the  
28 motor vehicle to an out-of-state location.

29 I. Notwithstanding subsection A, paragraph 2 of this section, if a  
30 motor vehicle dealer has established entitlement to a deduction by complying  
31 with subsection H of this section, the department may require the purchaser  
32 who executed the certificate to establish the accuracy and completeness of  
33 the information contained in the certificate that entitled the motor vehicle  
34 dealer to the deduction. If the purchaser cannot establish the accuracy and  
35 completeness of the information, the purchaser is liable in an amount equal  
36 to any tax, penalty and interest that the motor vehicle dealer would have  
37 been required to pay under this article and under articles IV and V of the  
38 model city tax code as defined in section 42-6051. Payment of the amount  
39 under this subsection exempts the purchaser from liability for any tax  
40 imposed under article 4 of this chapter and any tax imposed under article VI  
41 of the model city tax code as defined in section 42-6051. The amount shall  
42 be treated as tax revenues collected from the motor vehicle dealer in order  
43 to designate the distribution base for purposes of section 42-5029.

44 J. To establish entitlement to the deduction described in section  
45 42-5061, subsection A, paragraph ~~45~~ 44, a public consignment auction dealer

1 as defined in section ~~28-4410.01~~ 28-4301 shall submit the valid certificate  
2 prescribed by subsection H of this section to the department and retain a  
3 copy for its records.

4 K. Notwithstanding any other law, compliance with subsection H of this  
5 section by a motor vehicle dealer entitles the motor vehicle dealer to the  
6 exemption provided in section 42-6004, subsection A, paragraph 4.

7 L. THE DEPARTMENT SHALL PRESCRIBE A FORM FOR A CERTIFICATE TO BE USED  
8 BY A CONTRACTOR THAT IS NOT OTHERWISE SUBJECT TO TAX UNDER SECTION 42-5075  
9 WHEN PURCHASING TANGIBLE PERSONAL PROPERTY TO BE INCORPORATED OR FABRICATED  
10 BY THE PERSON INTO ANY REAL PROPERTY, STRUCTURE, PROJECT, DEVELOPMENT OR  
11 IMPROVEMENT. THE CONTRACTOR SHALL OBTAIN A NEW CERTIFICATE FOR EACH PROJECT  
12 AND IS SUBJECT TO THE FOLLOWING CONDITIONS:

13 1. THE CONTRACTOR IS NOT WORKING FOR THE OWNER OF THE REAL PROPERTY  
14 BUT IS WORKING ON A JOB THAT IS IN THE CONTROL OF A PRIME CONTRACTOR AND THAT  
15 THE PRIME CONTRACTOR IS LIABLE FOR THE TAX ON THE GROSS INCOME, GROSS  
16 PROCEEDS OF SALES OR GROSS RECEIPTS ATTRIBUTABLE TO THE JOB AND FROM WHICH  
17 THE CONTRACTOR IS PAID.

18 2. THE CONTRACTOR MAY USE THE CERTIFICATE ISSUED PURSUANT TO THIS  
19 SUBSECTION ONLY WITH RESPECT TO MATERIALS THAT WILL BE INCORPORATED INTO A  
20 PROJECT THE GROSS RECEIPTS OF WHICH ARE SUBJECT TO TAX UNDER SECTION 42-5075.

21 3. THE DEPARTMENT SHALL ISSUE THE CERTIFICATE TO THE CONTRACTOR ON  
22 RECEIVING SUFFICIENT DOCUMENTATION TO ESTABLISH THAT THE CONTRACTOR MEETS THE  
23 REQUIREMENTS OF THIS SUBSECTION.

24 4. THE DEPARTMENT SHALL NOT ISSUE A CERTIFICATE TO A CONTRACTOR THAT  
25 HAS A DELINQUENT TAX BALANCE OWING THE DEPARTMENT UNDER THIS TITLE OR  
26 TITLE 43.

27 5. IF THE DEPARTMENT DETERMINES THAT THE CONTRACTOR HAS FAILED TO MEET  
28 ANY OF THE REQUIREMENTS OF THIS SUBSECTION, ANY DEDUCTIONS FROM TAXATION FROM  
29 THE USE OF THE CERTIFICATE ARE SUBJECT TO RECAPTURE AND PAYMENT BY THE  
30 CONTRACTOR.

31 Sec. 4. Repeal

32 Section 42-5009, Arizona Revised Statutes, as amended by Laws 2013,  
33 chapter 255, section 5, is repealed.

34 Sec. 5. Section 42-5010, Arizona Revised Statutes, as amended by Laws  
35 2013, chapter 255, section 6, is amended to read:

36 42-5010. Rates; distribution base

37 A. The tax imposed by this article is levied and shall be collected at  
38 the following rates:

39 1. Five per cent of the tax base as computed for the business of every  
40 person engaging or continuing in this state in the following business  
41 classifications described in article 2 of this chapter:

- 42 (a) Transporting classification.
- 43 (b) Utilities classification.
- 44 (c) Telecommunications classification.
- 45 (d) Pipeline classification.

- 1 (e) Private car line classification.
- 2 (f) Publication classification.
- 3 (g) Job printing classification.
- 4 (h) Prime contracting classification.
- 5 (i) Amusement classification.
- 6 (j) Restaurant classification.
- 7 (k) Personal property rental classification.
- 8 (l) Retail classification.

9 2. Five and one-half per cent of the tax base as computed for the  
10 business of every person engaging or continuing in this state in the  
11 transient lodging classification described in section 42-5070.

12 3. Three and one-eighth per cent of the tax base as computed for the  
13 business of every person engaging or continuing in this state in the mining  
14 classification described in section 42-5072.

15 4. Zero per cent of the tax base as computed for the business of every  
16 person engaging or continuing in this state in the commercial lease  
17 classification described in section 42-5069.

18 B. Except as provided by subsection J of this section, twenty per cent  
19 of the tax revenues collected at the rate prescribed by subsection A,  
20 paragraph 1 of this section from persons on account of engaging in business  
21 under the business classifications listed in subsection A, paragraph 1,  
22 subdivisions (a) through (h) of this section is designated as distribution  
23 base for purposes of section 42-5029.

24 C. Forty per cent of the tax revenues collected at the rate prescribed  
25 by subsection A, paragraph 1 of this section from persons on account of  
26 engaging in business under the business classifications listed in subsection  
27 A, paragraph 1, subdivisions (i) through (l) of this section is designated as  
28 distribution base for purposes of section 42-5029.

29 D. Thirty-two per cent of the tax revenues collected from persons on  
30 account of engaging in business under the business classification listed in  
31 subsection A, paragraph 3 of this section is designated as distribution base  
32 for purposes of section 42-5029.

33 E. Fifty-three and one-third per cent of the tax revenues collected  
34 from persons on account of engaging in business under the business  
35 classification listed in subsection A, paragraph 4 of this section is  
36 designated as distribution base for purposes of section 42-5029.

37 F. Fifty per cent of the tax revenues collected from persons on  
38 account of engaging in business under the business classification listed in  
39 subsection A, paragraph 2 of this section is designated as distribution base  
40 for purposes of section 42-5029.

41 G. In addition to the rates prescribed by subsection A of this  
42 section, if approved by the qualified electors voting at a statewide general  
43 election, an additional rate increment is imposed and shall be collected  
44 through June 30, 2021. The taxpayer shall pay taxes pursuant to this  
45 subsection at the same time and in the same manner as under subsection A of

1 this section. The department shall separately account for the revenues  
2 collected with respect to the rates imposed pursuant to this subsection and  
3 the state treasurer shall distribute all of those revenues in the manner  
4 prescribed by section 42-5029, subsection E. The rates imposed pursuant to  
5 this subsection shall not be considered local revenues for purposes of  
6 article IX, section 21, Constitution of Arizona. The additional tax rate  
7 increment is levied at the rate of six-tenths of one per cent of the tax base  
8 of every person engaging or continuing in this state in a business  
9 classification listed in subsection A, paragraph 1 of this section.

10 H. Any increase in the rate of tax that is imposed by this chapter and  
11 that is enacted by the legislature or by a vote of the people does not apply  
12 with respect to contracts entered into by prime contractors or pursuant to  
13 written bids made by prime contractors on or before the effective date of the  
14 legislation or the date of the election enacting the increase. To qualify  
15 for the exemption under this subsection, the prime contractor must maintain  
16 sufficient documentation, in a manner and form prescribed by the department,  
17 to verify the date of the contract or written bid.

18 I. For taxpayers taxable under this chapter other than prime  
19 contractors taxable pursuant to section 42-5075:

20 1. Any increase in the rate of tax that is levied by this article or  
21 article 2 of this chapter enacted by the legislature or by a vote of the  
22 people does not apply for a period of one hundred twenty days from the date  
23 of the tax rate increase to the gross proceeds of sales or gross income from  
24 the business of the taxpayer with respect to written contracts entered into  
25 before the effective date of the tax rate increase unless the taxpayer has  
26 entered into a contract that contains a provision that entitles the taxpayer  
27 to recover from the purchaser the amount of the additional tax levied.

28 2. The provisions of this subsection apply without regard to the  
29 accounting method used by the taxpayer to report the taxes imposed under  
30 article 2 of this chapter.

31 3. The provisions of this subsection shall not be considered in  
32 determining the rate of tax imposed under chapter 6, article 3 of this title.

33 J. Zero per cent of the tax revenues that are collected at the rate  
34 prescribed by subsection A, paragraph 1 of this section from persons on  
35 account of engaging in business under the business classification listed in  
36 subsection A, paragraph 1, subdivision ~~(g)~~ (h) of this section, and that are  
37 subject to any distribution required by section 42-5032.02, is designated as  
38 distribution base for the purposes of section 42-5029 until the total amount  
39 subject to distribution pursuant to section 42-5032.02 has reached the  
40 maximum amount prescribed by section 42-5032.02, subsection C. Thereafter,  
41 twenty per cent of the remaining tax revenues is designated as distribution  
42 base for the purposes of section 42-5029 as provided by subsection B of this  
43 section.



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

7 C. The commercial lease classification does not include:

8 1. Any business activities that are classified under the transient  
9 lodging classification.

10 2. Activities engaged in by the Arizona exposition and state fair  
11 board or county fair commissions in connection with events sponsored by those  
12 entities.

13 3. Leasing real property to a lessee who subleases the property if the  
14 lessee is engaged in business classified under the commercial lease  
15 classification or the transient lodging classification.

16 4. Leasing real property pursuant to a written lease agreement entered  
17 into before December 1, 1967. This exclusion does not apply to the  
18 businesses of hotels, guest houses, dude ranches and resorts, rooming houses,  
19 apartment houses, office buildings, automobile storage garages, parking lots  
20 or tourist camps, or to the extension or renewal of any such written lease  
21 agreement.

22 5. Leasing real property between affiliated companies, businesses,  
23 persons or reciprocal insurers. For the purposes of this paragraph:

24 (a) "Affiliated companies, businesses, persons or reciprocal insurers"  
25 means the lessor holds a controlling interest in the lessee, the lessee holds  
26 a controlling interest in the lessor, ~~an~~ affiliated ~~entity holds~~ PERSONS HOLD  
27 a controlling interest in both the lessor and the lessee, or an unrelated  
28 person holds a controlling interest in both the lessor and lessee.

29 (b) "AFFILIATED PERSONS" MEANS MEMBERS OF AN INDIVIDUAL'S FAMILY OR  
30 PERSONS WHO HAVE OWNERSHIP OR CONTROL OF A BUSINESS ENTITY.

31 ~~(b)~~ (c) "Controlling interest" means direct or indirect ownership of  
32 at least eighty per cent of the voting shares of a corporation or of the  
33 interests in a company, business or person other than a corporation.

34 (d) "MEMBERS OF AN INDIVIDUAL'S FAMILY" MEANS THE INDIVIDUAL'S SPOUSE  
35 AND BROTHERS AND SISTERS, WHETHER BY WHOLE OR HALF BLOOD, INCLUDING ADOPTED  
36 PERSONS, ANCESTORS AND LINEAL DESCENDANTS.

37 ~~(e)~~ (e) "Reciprocal insurers" has the same meaning prescribed in  
38 section 20-762.

39 6. Leasing real property for boarding horses.

40 7. Leasing or renting real property or the right to use real property  
41 at exhibition events in this state sponsored, operated or conducted by a  
42 nonprofit organization that is exempt from taxation under section 501(c)(3),  
43 501(c)(4) or 501(c)(6) of the internal revenue code if the organization is  
44 associated with major league baseball teams or a national touring

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

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

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

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

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

21 (a) The lease or rental is between family members, trusts, estates,  
22 corporations, partnerships, joint venturers or similar entities, or any  
23 combination thereof, if the individuals or at least eighty per cent of the  
24 beneficiaries, shareholders, partners or joint venturers share a family  
25 relationship as parents or ancestors of parents, children or descendants of  
26 children, siblings, cousins of the first degree, aunts, uncles, nieces or  
27 nephews of the first degree, spouses of any of the listed relatives and  
28 listed relatives by the half-blood or by adoption.

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

31 12. Leasing, renting or granting the right to use real property to  
32 vendors or exhibitors by a trade or industry association that is a qualifying  
33 organization pursuant to section 513(d)(3)(C) of the internal revenue code  
34 for a period not to exceed twenty-one days in connection with an event that  
35 meets all of the following conditions:

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

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

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

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



1 this chapter. The proceeds from alteration and repairs to a used  
2 manufactured building are taxable under this section.

3 B. The tax base for the prime contracting classification is sixty-five  
4 per cent of the gross proceeds of sales or gross income derived from the  
5 business. The following amounts shall be deducted from the gross proceeds of  
6 sales or gross income before computing the tax base:

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

9 2. Sales and installation of groundwater measuring devices required  
10 under section 45-604 and groundwater monitoring wells required by law,  
11 including monitoring wells installed for acquiring information for a permit  
12 required by law.

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

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

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

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

1 environment, unless the release was authorized by a permit issued by a  
2 governmental authority:

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

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

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

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

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

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

22 7. The gross proceeds of sales or gross income that is derived from a  
23 contract for the installation, assembly, repair or maintenance of machinery,  
24 equipment or other tangible personal property that is either deducted from  
25 the tax base of the retail classification under section 42-5061, subsection B  
26 or that is exempt from use tax under section 42-5159, subsection B and that  
27 has independent functional utility, pursuant to the following provisions:

28 (a) The deduction provided in this paragraph includes the gross  
29 proceeds of sales or gross income derived from all of the following:

30 (i) Any activity performed on machinery, equipment or other tangible  
31 personal property with independent functional utility.

32 (ii) Any activity performed on any tangible personal property relating  
33 to machinery, equipment or other tangible personal property with independent  
34 functional utility in furtherance of any of the purposes provided for under  
35 subdivision (d) of this paragraph.

36 (iii) Any activity that is related to the activities described in  
37 ~~subdivision (a),~~ items (i) and (ii) of this ~~paragraph~~ SUBDIVISION,  
38 including, ~~but not limited to,~~ inspecting the installation of, ~~or testing,~~  
39 the machinery, equipment or other tangible personal property.

40 (b) The deduction provided in this paragraph does not include gross  
41 proceeds of sales or gross income from the portion of any contracting  
42 activity that consists of the development of, or modification to, real  
43 property in order to facilitate the installation, assembly, repair,  
44 maintenance or removal of machinery, equipment or other tangible personal  
45 property that is either deducted from the tax base of the retail

1 classification under section 42-5061, subsection B or exempt from use tax  
2 under section 42-5159, subsection B.

3 (c) The deduction provided in this paragraph shall be determined  
4 without regard to the size or useful life of the machinery, equipment or  
5 other tangible personal property.

6 (d) For the purposes of this paragraph, "independent functional  
7 utility" means that the machinery, equipment or other tangible personal  
8 property can independently perform its function without attachment to real  
9 property, other than attachment for any of the following purposes:

10 (i) Assembling the machinery, equipment or other tangible personal  
11 property.

12 (ii) Connecting items of machinery, equipment or other tangible  
13 personal property to each other.

14 (iii) Connecting the machinery, equipment or other tangible personal  
15 property, whether as an individual item or as a system of items, to water,  
16 power, gas, communication or other services.

17 (iv) Stabilizing or protecting the machinery, equipment or other  
18 tangible personal property during operation by bolting, burying or performing  
19 other similar nonpermanent connections to either real property or real  
20 property improvements.

21 8. The gross proceeds of sales or gross income attributable to the  
22 purchase of machinery, equipment or other tangible personal property that is  
23 exempt from or deductible from transaction privilege and use tax under:

24 (a) Section 42-5061, subsection A, paragraph 25, 29 or ~~59~~ 58.

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

26 (c) Section 42-5159, subsection A, paragraph 13, subdivision (a), (b),  
27 (c), (d), (e), (f), (i), (j) or (l) or paragraph 54.

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

29 9. The gross proceeds of sales or gross income received from a  
30 contract for the construction of an environmentally controlled facility for  
31 the raising of poultry for the production of eggs and the sorting, cooling  
32 and packaging of eggs.

33 10. The gross proceeds of sales or gross income that is derived from a  
34 contract entered into with a person who is engaged in the commercial  
35 production of livestock, livestock products or agricultural, horticultural,  
36 viticultural or floricultural crops or products in this state for the  
37 construction, alteration, repair, improvement, movement, wrecking or  
38 demolition or addition to or subtraction from any building, highway, road,  
39 excavation, manufactured building or other structure, project, development or  
40 improvement used directly and primarily to prevent, monitor, control or  
41 reduce air, water or land pollution.

42 11. The gross proceeds of sales or gross income that is derived from  
43 the installation, assembly, repair or maintenance of clean rooms that are  
44 deducted from the tax base of the retail classification pursuant to section  
45 42-5061, subsection B, paragraph 16.

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

7           13. For taxable periods beginning from and after December 31, 1996 and  
8 ending before January 1, 2017, the gross proceeds of sales or gross income  
9 derived from a contract to provide and install a solar energy device. The  
10 contractor shall register with the department as a solar energy contractor.  
11 By registering, the contractor acknowledges that it will make its books and  
12 records relating to sales of solar energy devices available to the department  
13 for examination.

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

17           15. The gross proceeds of sales or gross income derived from a contract  
18 entered into for the construction of a domestic violence shelter that is  
19 owned and operated by a nonprofit charitable organization that has qualified  
20 under section 501(c)(3) of the internal revenue code.

21           16. The gross proceeds of sales or gross income derived from contracts  
22 to perform postconstruction treatment of real property for termite and  
23 general pest control, including wood destroying organisms.

24           17. The gross proceeds of sales or gross income received from contracts  
25 entered into before July 1, 2006 for constructing a state university research  
26 infrastructure project if the project has been reviewed by the joint  
27 committee on capital review before the university enters into the  
28 construction contract for the project. For the purposes of this paragraph,  
29 "research infrastructure" has the same meaning prescribed in section 15-1670.

30           18. The gross proceeds of sales or gross income received from a  
31 contract for the construction of any building, or other structure, project,  
32 development or improvement owned by a qualified business under section  
33 41-1516 for harvesting or processing qualifying forest products removed from  
34 qualifying projects as defined in section 41-1516 if actual construction  
35 begins before January 1, 2024. To qualify for this deduction, the prime  
36 contractor must obtain a letter of qualification from the Arizona commerce  
37 authority before beginning work under the contract.

38           19. Any amount of the gross proceeds of sales or gross income  
39 attributable to development fees that are incurred in relation to a contract  
40 for construction, development or improvement of real property and that are  
41 paid by a prime contractor or subcontractor. For the purposes of this  
42 paragraph:

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

1 (b) The attributable amount is equal to the total amount of  
2 development fees paid by the prime contractor or subcontractor, and the total  
3 development fees credited in exchange for the construction of, contribution  
4 to or dedication of real property for providing public infrastructure, public  
5 safety or other public services necessary to the development. The real  
6 property must be the subject of the development fees.

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

11 20. THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM A CONTRACT  
12 WITH THE OWNER OF REAL PROPERTY FOR THE MAINTENANCE, REPAIR OR REPLACEMENT OF  
13 EXISTING PROPERTY IF THE CONTRACT DOES NOT INCLUDE MODIFICATION ACTIVITIES.  
14 FOR THE PURPOSES OF THIS PARAGRAPH, EACH CONTRACT OR PROJECT IS INDEPENDENT  
15 OF ANOTHER CONTRACT. A CONTRACTOR THAT HAS GROSS PROCEEDS OF SALES OR GROSS  
16 INCOME DERIVED FROM A CONTRACT THAT IS NOT SUBJECT TO TAX UNDER THIS  
17 PARAGRAPH IS SUBJECT TO TAX ON A CONTRACT THAT INCLUDES MODIFICATION  
18 ACTIVITIES.

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

21 1. A prime contractor may establish entitlement to the deduction by  
22 both:

23 (a) Marking the invoice for the transaction to indicate that the gross  
24 proceeds of sales or gross income derived from the transaction was deducted  
25 from the base.

26 (b) Obtaining a certificate executed by the purchaser indicating the  
27 name and address of the purchaser, the precise nature of the business of the  
28 purchaser, the purpose for which the purchase was made, the necessary facts  
29 to establish the deductibility of the property under section 42-5061,  
30 subsection B, and a certification that the person executing the certificate  
31 is authorized to do so on behalf of the purchaser. The certificate may be  
32 disregarded if the prime contractor has reason to believe that the  
33 information contained in the certificate is not accurate or complete.

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

37 3. The department may prescribe a form for the certificate described  
38 in paragraph 1, subdivision (b) of this subsection. The department may also  
39 adopt rules that describe the transactions with respect to which a person is  
40 not entitled to rely solely on the information contained in the certificate  
41 provided in paragraph 1, subdivision (b) of this subsection but must instead  
42 obtain such additional information as required in order to be entitled to the  
43 deduction.

44 4. If a prime contractor is entitled to a deduction by complying with  
45 paragraph 1 of this subsection, the department may require the purchaser who

1 caused the execution of the certificate to establish the accuracy and  
2 completeness of the information required to be contained in the certificate  
3 that would entitle the prime contractor to the deduction. If the purchaser  
4 cannot establish the accuracy and completeness of the information, the  
5 purchaser is liable in an amount equal to any tax, penalty and interest that  
6 the prime contractor would have been required to pay under article 1 of this  
7 chapter if the prime contractor had not complied with paragraph 1 of this  
8 subsection. Payment of the amount under this paragraph exempts the purchaser  
9 from liability for any tax imposed under article 4 of this chapter. The  
10 amount shall be treated as a transaction privilege tax to the purchaser and  
11 as tax revenues collected from the prime contractor in order to designate the  
12 distribution base for purposes of section 42-5029.

13 D. Subcontractors or others who perform services in respect to any  
14 improvement, building, highway, road, railroad, excavation, manufactured  
15 building or other structure, project, development or improvement are not  
16 subject to tax if they can demonstrate that the job was within the control of  
17 a prime contractor or contractors or a dealership of manufactured buildings  
18 and that the prime contractor or dealership is liable for the tax on the  
19 gross income, gross proceeds of sales or gross receipts attributable to the  
20 job and from which the subcontractors or others were paid.

21 E. Amounts received by a contractor for a project are excluded from  
22 the contractor's gross proceeds of sales or gross income derived from the  
23 business if the person who hired the contractor executes and provides a  
24 certificate to the contractor stating that the person providing the  
25 certificate is a prime contractor and is liable for the tax under article 1  
26 of this chapter. The department shall prescribe the form of the certificate.  
27 If the contractor has reason to believe that the information contained on the  
28 certificate is erroneous or incomplete, the department may disregard the  
29 certificate. If the person who provides the certificate is not liable for  
30 the tax as a prime contractor, that person is nevertheless deemed to be the  
31 prime contractor in lieu of the contractor and is subject to the tax under  
32 this section on the gross receipts or gross proceeds received by the  
33 contractor.

34 F. Every person engaging or continuing in this state in the business  
35 of prime contracting or dealership of manufactured buildings shall present to  
36 the purchaser of such prime contracting or manufactured building a written  
37 receipt of the gross income or gross proceeds of sales from such activity and  
38 shall separately state the taxes to be paid pursuant to this section.

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

1 H. For the purposes of section 42-5032.02, from and after September  
2 30, 2013, the department shall separately account for revenues reported and  
3 collected under the prime contracting classification from any prime  
4 contractor engaged in the construction of any buildings and associated  
5 improvements that are for the benefit of a manufacturing facility. For the  
6 purposes of this subsection, "associated improvements" and "manufacturing  
7 facility" have the same meanings prescribed in section 42-5032.02.

8 I. The gross proceeds of sales or gross income derived from a contract  
9 for lawn maintenance services are not subject to tax under this section if  
10 the contract does not include landscaping activities. Lawn maintenance  
11 service is a service pursuant to section 42-5061, subsection A, paragraph 1,  
12 and includes lawn mowing and edging, weeding, repairing sprinkler heads or  
13 drip irrigation heads, seasonal replacement of flowers, refreshing gravel,  
14 lawn de-thatching, seeding winter lawns, leaf and debris collection and  
15 removal, tree or shrub pruning or clipping, garden and gravel raking and  
16 applying pesticides, as defined in section 3-361, and fertilizer materials,  
17 as defined in section 3-262.

18 J. The gross proceeds of sales or gross income derived from  
19 landscaping activities are subject to tax under this section. Landscaping  
20 includes installing lawns, grading or leveling ground, installing gravel or  
21 boulders, planting trees and other plants, felling trees, removing or  
22 mulching tree stumps, removing other imbedded plants, building or modifying  
23 irrigation berms, repairing sprinkler or watering systems, installing  
24 railroad ties and installing underground sprinkler or watering systems.

25 K. The portion of gross proceeds of sales or gross income attributable  
26 to the actual direct costs of providing architectural or engineering services  
27 that are incorporated in a contract is not subject to tax under this section.  
28 For the purposes of this subsection, "direct costs" means the portion of the  
29 actual costs that are directly expended in providing architectural or  
30 engineering services.

31 L. Operating a landfill or a solid waste disposal facility is not  
32 subject to taxation under this section, including filling, compacting and  
33 creating vehicle access to and from cell sites within the landfill.  
34 Constructing roads to a landfill or solid waste disposal facility and  
35 constructing cells within a landfill or solid waste disposal facility may be  
36 deemed prime contracting under this section.

37 M. The following apply ~~to~~ IN DETERMINING THE TAXABLE SITUS OF SALES OF  
38 manufactured buildings:

39 1. For sales in this state where the ~~dealership-of~~ manufactured  
40 ~~buildings~~ BUILDING DEALER contracts to deliver the building to a setup site  
41 or to perform the setup in this state, the taxable situs is the setup site.

42 2. For sales in this state where the ~~dealership-of~~ manufactured  
43 ~~buildings~~ BUILDING DEALER does not contract to deliver the building to a  
44 setup site or does not perform the setup, the taxable situs is the location  
45 of the dealership where the building is delivered to the buyer.

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

5           N. The gross proceeds of sales or gross income attributable to a  
6 ~~separate,~~ written **CONTRACT FOR** design phase services ~~contract~~ or professional  
7 services ~~contract~~, executed before modification begins **AND WITH TERMS,**  
8 **CONDITIONS AND PRICING OF ALL OF THESE SERVICES SEPARATELY STATED IN THE**  
9 **CONTRACT FROM THOSE FOR CONSTRUCTION PHASE SERVICES**, is not subject to tax  
10 under this section, regardless of whether the services are provided  
11 sequential to or concurrent with prime contracting activities that are  
12 subject to tax under this section. This subsection does not include the  
13 gross proceeds of sales or gross income attributable to construction phase  
14 services. For the purposes of this subsection:

15           1. "Construction phase services" means services for the execution and  
16 completion of any modification, including the following:

17           (a) Administration or supervision of any modification performed on the  
18 project, including team management and coordination, scheduling, cost  
19 controls, submittal process management, field management, safety program,  
20 close-out process and warranty period services.

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

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

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

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

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

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

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

1 (f) Preparation of any manuals, warranties, as-built drawings, spares  
2 or other items the prime contractor must furnish pursuant to the contract for  
3 modification work. For the purposes of this subdivision, "as-built drawing"  
4 means a drawing that indicates field changes made to adapt to field  
5 conditions, field changes resulting from change orders or buried and  
6 concealed installation of piping, conduit and utility services.

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

10 (i) Master schedule updates.

11 (ii) Modification work cash flow projection updates.

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

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

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

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

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

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

24 2. "Design phase services" means services for developing and  
25 completing a design for a project that are not construction phase services,  
26 including the following:

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

30 (b) Evaluating any criteria or programming objectives for the project  
31 to ascertain requirements for the project, such as physical requirements  
32 affecting cost or projected utilization of the project.

33 (c) Preparing drawings and specifications for architectural program  
34 documents, schematic design documents, design development documents,  
35 modification work documents or documents that identify the scope of or  
36 materials for the project.

37 (d) Preparing an initial schedule for the project, excluding the  
38 preparation of updates to the master schedule after modification work has  
39 begun.

40 (e) Preparing preliminary estimates of costs of modification work  
41 before completion of the final design of the project, including an estimate  
42 or schedule of values for any of the following:

43 (i) Labor, materials, machinery and equipment, tools, water, heat,  
44 utilities, transportation and other facilities and services used in the

1 execution and completion of modification work, regardless of whether they are  
2 temporary or permanent or whether they are incorporated in the modifications.

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

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

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

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

12 (vi) Any bond and insurance premiums.

13 (vii) Any applicable taxes.

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

16 (f) Reviewing and evaluating cost estimates and project documents to  
17 prepare recommendations on site use, site improvements, selection of  
18 materials, building systems and equipment, modification feasibility,  
19 availability of materials and labor, local modification activity as related  
20 to schedules and time requirements for modification work.

21 (g) Preparing the plan and procedures for selection of subcontractors,  
22 including any prequalification of subcontractor candidates.

23 3. "Professional services" means architect services, assayer services,  
24 engineer services, geologist services, land surveying services or landscape  
25 architect services that are within the scope of those services as provided in  
26 title 32, chapter 1 and for which gross proceeds of sales or gross income has  
27 not otherwise been deducted under subsection K of this section.

28 0. Notwithstanding subsection P, paragraph 8 of this section, a person  
29 owning real property who enters into a contract for sale of the real  
30 property, who is responsible to the new owner of the property for  
31 modifications made to the property in the period subsequent to the transfer  
32 of title and who receives a consideration for the modifications is considered  
33 a prime contractor solely for purposes of taxing the gross proceeds of sale  
34 or gross income received for the modifications made subsequent to the  
35 transfer of title. The original owner's gross proceeds of sale or gross  
36 income received for the modifications shall be determined according to the  
37 following methodology:

38 1. If any part of the contract for sale of the property specifies  
39 amounts to be paid to the original owner for the modifications to be made in  
40 the period subsequent to the transfer of title, the amounts are included in  
41 the original owner's gross proceeds of sale or gross income under this  
42 section. Proceeds from the sale of the property that are received after  
43 transfer of title and that are unrelated to the modifications made subsequent  
44 to the transfer of title are not considered gross proceeds of sale or gross  
45 income from the modifications.

1           2. If the original owner enters into an agreement separate from the  
2 contract for sale of the real property providing for amounts to be paid to  
3 the original owner for the modifications to be made in the period subsequent  
4 to the transfer of title to the property, the amounts are included in the  
5 original owner's gross proceeds of sale or gross income received for the  
6 modifications made subsequent to the transfer of title.

7           3. If the original owner is responsible to the new owner for  
8 modifications made to the property in the period subsequent to the transfer  
9 of title and derives any gross proceeds of sale or gross income from the  
10 project subsequent to the transfer of title other than a delayed disbursement  
11 from escrow unrelated to the modifications, it is presumed that the amounts  
12 are received for the modifications made subsequent to the transfer of title  
13 unless the contrary is established by the owner through its books, records  
14 and papers kept in the regular course of business.

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

17           P. For the purposes of this section:

18           1. "Contracting" means engaging in business as a contractor.

19           2. "Contractor" is synonymous with the term "builder" and means any  
20 person or organization that undertakes to or offers to undertake to, or  
21 purports to have the capacity to undertake to, or submits a bid to, or does  
22 personally or by or through others, modify any building, highway, road,  
23 railroad, excavation, manufactured building or other structure, project,  
24 development or improvement, or to do any part of such a project, including  
25 the erection of scaffolding or other structure or works in connection with  
26 such a project, and includes subcontractors and specialty contractors. For  
27 all purposes of taxation or deduction, this definition shall govern without  
28 regard to whether or not such contractor is acting in fulfillment of a  
29 contract.

30           ~~4.~~ 3. "Manufactured building" means a manufactured home, mobile home  
31 or factory-built building, as defined in section 41-2142.

32           ~~3.~~ 4. "~~Dealership of~~ Manufactured ~~buildings~~ BUILDING DEALER" means a  
33 dealer who either:

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

36           (b) Supervises, performs or coordinates the excavation and completion  
37 of site improvements, ~~OR THE~~ setup or moving of a manufactured building  
38 including the contracting, if any, with any subcontractor or specialty  
39 contractor for the completion of the contract.

40           5. "Modification" means construction, ~~alteration, repair,~~ addition,  
41 subtraction, improvement, movement, wreckage or demolition.

42           6. "Modify" means to construct, ~~alter, repair,~~ add to, subtract from,  
43 improve, move, wreck or demolish.

44           7. "Prime contracting" means engaging in business as a prime  
45 contractor.

1           8. "Prime contractor" means a contractor who supervises, performs or  
2 coordinates the modification of any building, highway, road, railroad,  
3 excavation, manufactured building or other structure, project, development or  
4 improvement including the contracting, if any, with any subcontractors or  
5 specialty contractors and who is responsible for the completion of the  
6 contract. Except as provided in subsections E and O of this section, a  
7 person who owns real property, who engages one or more contractors to modify  
8 that real property and who does not itself modify that real property is not a  
9 prime contractor within the meaning of this paragraph regardless of the  
10 existence of a contract for sale or the subsequent sale of that real  
11 property.

12           9. "Sale of a used manufactured building" does not include a lease of  
13 a used manufactured building.

14           Sec. 9. Repeal

15           Section 42-5075, Arizona Revised Statutes, as amended by Laws 2013,  
16 chapter 255, section 15, is repealed.

17           Sec. 10. Section 42-6004, Arizona Revised Statutes, as amended by Laws  
18 2013, first regular session, chapter 27, section 2, chapter 120, section 2,  
19 chapter 153, section 2 and chapter 236, section 6 and Laws 2013, first  
20 special session, chapter 9, section 8, is amended to read:

21           42-6004. Exemption from municipal tax

22           A. A city, town or special taxing district shall not levy a  
23 transaction privilege, sales, use or other similar tax on:

24           1. Exhibition events in this state sponsored, conducted or operated by  
25 a nonprofit organization that is exempt from taxation under section  
26 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the  
27 organization is associated with a major league baseball team or a national  
28 touring professional golfing association and no part of the organization's  
29 net earnings inures to the benefit of any private shareholder or individual.

30           2. Interstate telecommunications services, which include that portion  
31 of telecommunications services, such as subscriber line service, allocable by  
32 federal law to interstate telecommunications service.

33           3. Sales of warranty or service contracts.

34           4. Sales of motor vehicles to nonresidents of this state for use  
35 outside this state if the ~~vendor~~ **MOTOR VEHICLE DEALER** ships or delivers the  
36 motor vehicle to a destination outside this state.

37           5. Interest on finance contracts.

38           6. Dealer documentation fees on the sales of motor vehicles.

39           7. Sales of food or other items purchased with United States  
40 department of agriculture food stamp coupons issued under the food stamp act  
41 of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under section  
42 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661,  
43 section 4302; 42 United States Code section 1786) but may impose such a tax  
44 on other sales of food. If a city, town or special taxing district exempts  
45 sales of food from its tax or imposes a different transaction privilege rate

1 on the gross proceeds of sales or gross income from sales of food and nonfood  
2 items, it shall use the definition of food prescribed by rule adopted by the  
3 department pursuant to section 42-5106.

4 8. Orthodontic devices dispensed by a dental professional who is  
5 licensed under title 32, chapter 11 to a patient as part of the practice of  
6 dentistry.

7 9. Sales of internet access services to the person's subscribers and  
8 customers. For the purposes of this paragraph:

9 (a) "Internet" means the computer and telecommunications facilities  
10 that comprise the interconnected worldwide network of networks that employ  
11 the transmission control protocol or internet protocol, or any predecessor or  
12 successor protocol, to communicate information of all kinds by wire or radio.

13 (b) "Internet access" means a service that enables users to access  
14 content, information, electronic mail or other services over the internet.  
15 Internet access does not include telecommunication services provided by a  
16 common carrier.

17 10. The gross proceeds of sales or gross income retained by the Arizona  
18 exposition and state fair board from ride ticket sales at the annual Arizona  
19 state fair.

20 11. Through August 31, 2014, sales of Arizona centennial medallions by  
21 the historical advisory commission.

22 12. Leasing real property between affiliated companies, businesses,  
23 persons or reciprocal insurers. For the purposes of this paragraph:

24 (a) "Affiliated companies, businesses, persons or reciprocal insurers"  
25 means the lessor holds a controlling interest in the lessee, the lessee holds  
26 a controlling interest in the lessor, ~~an~~ affiliated ~~entity holds~~ PERSONS HOLD  
27 a controlling interest in both the lessor and the lessee, or an unrelated  
28 person holds a controlling interest in both the lessor and lessee.

29 (b) "AFFILIATED PERSONS" MEANS MEMBERS OF THE INDIVIDUAL'S FAMILY OR  
30 PERSONS WHO HAVE OWNERSHIP OR CONTROL OF A BUSINESS ENTITY.

31 ~~(b)~~ (c) "Controlling interest" means direct or indirect ownership of  
32 at least eighty per cent of the voting shares of a corporation or of the  
33 interests in a company, business or person other than a corporation.

34 (d) "MEMBERS OF THE INDIVIDUAL'S FAMILY" MEANS THE INDIVIDUAL'S SPOUSE  
35 AND BROTHERS AND SISTERS, WHETHER BY WHOLE OR HALF BLOOD, INCLUDING ADOPTED  
36 PERSONS, ANCESTORS AND LINEAL DESCENDANTS.

37 ~~(e)~~ (e) "Reciprocal insurer" has the same meaning prescribed in  
38 section 20-762.

39 13. The gross proceeds of sales or gross income derived from a contract  
40 for the installation, assembly, repair or maintenance of machinery, equipment  
41 or other tangible personal property described in section 42-5061, subsection  
42 B and that has independent functional utility, pursuant to the following  
43 provisions:

44 (a) The deduction provided in this paragraph includes the gross  
45 proceeds of sales or gross income derived from all of the following:

1 (i) Any activity performed on machinery, equipment or other tangible  
2 personal property with independent functional utility.

3 (ii) Any activity performed on any tangible personal property relating  
4 to machinery, equipment or other tangible personal property with independent  
5 functional utility in furtherance of any of the purposes provided for under  
6 subdivision (d) of this paragraph.

7 (iii) Any activity that is related to the activities described in  
8 ~~subdivision (a),~~ items (i) and (ii) of this ~~paragraph~~ SUBDIVISION,  
9 including, ~~but not limited to,~~ inspecting the installation of, ~~or testing,~~  
10 the machinery, equipment or other tangible personal property.

11 (b) The deduction provided in this paragraph does not include gross  
12 proceeds of sales or gross income from the portion of any contracting  
13 activity that consists of the development of, or modification to, real  
14 property in order to facilitate the installation, assembly, repair,  
15 maintenance or removal of machinery, equipment or other tangible personal  
16 property described in section 42-5061, subsection B.

17 (c) The deduction provided in this paragraph shall be determined  
18 without regard to the size or useful life of the machinery, equipment or  
19 other tangible personal property.

20 (d) For the purposes of this paragraph, "independent functional  
21 utility" means that the machinery, equipment or other tangible personal  
22 property can independently perform its function without attachment to real  
23 property, other than attachment for any of the following purposes:

24 (i) Assembling the machinery, equipment or other tangible personal  
25 property.

26 (ii) Connecting items of machinery, equipment or other tangible  
27 personal property to each other.

28 (iii) Connecting the machinery, equipment or other tangible personal  
29 property, whether as an individual item or as a system of items, to water,  
30 power, gas, communication or other services.

31 (iv) Stabilizing or protecting the machinery, equipment or other  
32 tangible personal property during operation by bolting, burying or performing  
33 other dissimilar nonpermanent connections to either real property or real  
34 property improvements.

35 14. The leasing or renting of certified ignition interlock devices  
36 installed pursuant to the requirements prescribed by section 28-1461. For  
37 the purposes of this paragraph, "certified ignition interlock device" has the  
38 same meaning prescribed in section 28-1301.

39 15. Computer data center equipment purchased by the owner, operator or  
40 qualified colocation tenant of the computer data center or an authorized  
41 agent of the owner, operator or qualified colocation tenant during the  
42 qualification period for use in a computer data center that is certified by  
43 the Arizona commerce authority under section 41-1519. To qualify for this  
44 deduction, at the time of purchase, the owner, operator or qualified  
45 colocation tenant must present to the retailer its certificate that is issued

1 pursuant to section 41-1519 and that establishes its qualification for the  
2 deduction. For the purposes of this paragraph, "computer data center",  
3 "computer data center equipment", "qualification period" and "qualified  
4 colocation tenant" have the same meanings prescribed in section 41-1519.

5 16. THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM A CONTRACT  
6 WITH THE OWNER OF REAL PROPERTY FOR THE MAINTENANCE, REPAIR OR REPLACEMENT OF  
7 EXISTING PROPERTY IS NOT SUBJECT TO TAX IF THE CONTRACT DOES NOT INCLUDE  
8 MODIFICATION ACTIVITIES. FOR THE PURPOSES OF THIS PARAGRAPH:

9 (a) EACH CONTRACT OR PROJECT IS INDEPENDENT OF ANOTHER CONTRACT.

10 (b) "MODIFICATION" MEANS CONSTRUCTION, ADDITION, SUBTRACTION,  
11 IMPROVEMENT, MOVEMENT, WRECKAGE OR DEMOLITION.

12 B. A city, town or other taxing jurisdiction shall not levy a  
13 transaction privilege, sales, use, franchise or other similar tax or fee,  
14 however denominated, on natural gas or liquefied petroleum gas used to propel  
15 a motor vehicle.

16 C. A city, town or other taxing jurisdiction shall not levy a  
17 transaction privilege, sales, gross receipts, use, franchise or other similar  
18 tax or fee, however denominated, on gross proceeds of sales or gross income  
19 derived from any of the following:

20 1. A motor carrier's use on the public highways in this state if the  
21 motor carrier is subject to a fee prescribed in title 28, chapter 16,  
22 article 4.

23 2. Leasing, renting or licensing a motor vehicle subject to and ~~upon~~  
24 ON which the fee has been paid under title 28, chapter 16, article 4.

25 3. The sale of a motor vehicle and any repair and replacement parts  
26 and tangible personal property becoming a part of such motor vehicle to a  
27 motor carrier who is subject to a fee prescribed in title 28, chapter 16,  
28 article 4 and who is engaged in the business of leasing, renting or licensing  
29 such property.

30 4. Incarcerating or detaining in a privately operated prison, jail or  
31 detention facility prisoners who are under the jurisdiction of the United  
32 States, this state or any other state or a political subdivision of this  
33 state or of any other state.

34 5. Transporting for hire persons, freight or property by light motor  
35 vehicles subject to a fee under title 28, chapter 15, article 4.

36 6. Any amount attributable to development fees that are incurred in  
37 relation to the construction, development or improvement of real property and  
38 paid by the taxpayer as defined in the model city tax code or by a contractor  
39 providing services to the taxpayer. For the purposes of this paragraph:

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

42 (b) The attributable amount is equal to the total amount of  
43 development fees paid by the taxpayer or by a contractor providing services  
44 to the taxpayer and the total development fees credited in exchange for the  
45 construction of, contribution to or dedication of real property for providing

1 public infrastructure, public safety or other public services necessary to  
2 the development. The real property must be the subject of the development  
3 fees.

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

8 D. A city, town or other taxing jurisdiction shall not levy a  
9 transaction privilege, sales, use, franchise or other similar tax or fee,  
10 however denominated, in excess of one-tenth of one per cent of the value of  
11 the entire product mined, smelted, extracted, refined, produced or prepared  
12 for sale, profit or commercial use, on persons engaged in the business of  
13 mineral processing, except to the extent that the tax is computed on the  
14 gross proceeds or gross income from sales at retail.

15 E. In computing the tax base, any city, town or other taxing  
16 jurisdiction shall not include in the gross proceeds of sales or gross  
17 income:

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

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

21 F. A city or town shall not levy a use tax on the storage, use or  
22 consumption of tangible personal property in the city or town by a school  
23 district or charter school.

24 Sec. 11. Repeal

25 Section 42-6004, Arizona Revised Statutes, as amended by Laws 2013,  
26 chapter 255, section 20, is repealed.

27 Sec. 12. Section 42-12001, Arizona Revised Statutes, is amended to  
28 read:

29 42-12001. Class one property

30 For purposes of taxation, class one is established consisting of the  
31 following subclasses:

32 1. Producing mines and mining claims, personal property used on mines  
33 and mining claims, improvements to mines and mining claims and mills and  
34 smelters operated in conjunction with mines and mining claims that are valued  
35 at full cash value pursuant to section 42-14053.

36 2. Standing timber that is valued at full cash value.

37 3. Real and personal property of gas distribution companies, electric  
38 transmission companies, electric distribution companies, combination gas and  
39 electric transmission and distribution companies, **AND** companies engaged in  
40 the generation of electricity ~~and electric cooperatives~~ that are valued at  
41 full cash value pursuant to section 42-14151.

42 4. Real and personal property of airport fuel delivery companies that  
43 are valued pursuant to section 42-14503.

1           5. Real and personal property that is used by producing oil, gas and  
2 geothermal resource interests that are valued at full cash value pursuant to  
3 section 42-14102.

4           6. Real and personal property of water, sewer and wastewater utility  
5 companies that are valued at full cash value pursuant to section 42-14151.

6           7. Real and personal property of pipeline companies that are valued at  
7 full cash value pursuant to section 42-14201.

8           8. Real and personal property of shopping centers that are valued at  
9 full cash value or pursuant to chapter 13, article 5 of this title, as  
10 applicable, other than property that is included in class nine.

11           9. Real and personal property of golf courses that are valued at full  
12 cash value or pursuant to chapter 13, article 4 of this title.

13           10. All property, both real and personal, of manufacturers, assemblers  
14 or fabricators, other than property that is specifically included in another  
15 class described in this article, that ~~are~~ IS valued under this title.

16           11. Real and personal property that is used in communications  
17 transmission facilities and that provides public telephone or  
18 telecommunications exchange or interexchange access for compensation to  
19 effect two-way communication to, from, through or within this state.

20           12. Real property and improvements that are devoted to any other  
21 commercial or industrial use, other than property that is specifically  
22 included in another class described in this article, and that are valued at  
23 full cash value.

24           13. Personal property that is devoted to any other commercial or  
25 industrial use, other than property that is specifically included in another  
26 class described in this article, and that is valued at full cash value.

27           14. REAL AND PERSONAL PROPERTY OF ELECTRIC COOPERATIVES THAT ARE VALUED  
28 AT FULL CASH VALUE PURSUANT TO SECTION 42-14159.

29           Sec. 13. Section 42-12101, Arizona Revised Statutes, is amended to  
30 read:

31           42-12101. Definitions

32           In this article, unless the context otherwise requires:

33           1. "Commercial historic property" means real property that:

34           (a) Meets the criteria for classification as class one, paragraph 12  
35 pursuant to section 42-12001 or class four pursuant to section 42-12004,  
36 **SUBSECTION A, PARAGRAPHS 2 THROUGH 9.**

37           (b) Is listed in the national register of historic places established  
38 and maintained under the national historic preservation act (P.L. 89-665; 80  
39 Stat. 915; 16 United States Code section 470 et seq.), as amended.

40           (c) Meets the minimum standards of maintenance established by rule by  
41 the Arizona state parks board.

42           2. "Noncommercial historic property" means real property:

43           (a) That is listed in the national register of historic places  
44 established and maintained under the national historic preservation act

1 (P.L. 89-665; 80 Stat. 915; 16 United States Code section 470 et seq.), as  
2 amended.

3 (b) That meets the minimum standards of maintenance established by  
4 rule by the Arizona state parks board.

5 (c) On which no business or enterprise is conducted with the intent of  
6 earning a profit.

7 Sec. 14. Section 43-222, Arizona Revised Statutes, is amended to read:

8 43-222. Income tax credit review schedule

9 The joint legislative income tax credit review committee shall review  
10 the following income tax credits:

11 1. For years ending in 0 and 5, sections 43-1079.01, 43-1087, 43-1088,  
12 ~~43-1090.01, 43-1167.01, AND 43-1175 and 43-1182.~~

13 2. For years ending in 1 and 6, sections 43-1074.02, 43-1083,  
14 43-1083.02, 43-1085.01, 43-1164.02, 43-1164.03 and 43-1183.

15 3. For years ending in 2 and 7, sections 43-1073, 43-1079, 43-1080,  
16 43-1085, 43-1086, 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1090,  
17 43-1164, 43-1167, 43-1169, 43-1176 and 43-1181.

18 4. For years ending in 3 and 8, sections 43-1074.01, 43-1081, 43-1168,  
19 43-1170 and 43-1178.

20 5. For years ending in 4 and 9, sections 43-1076, 43-1076.01,  
21 43-1081.01, 43-1083.01, 43-1084, 43-1162, 43-1162.01, 43-1164.01, 43-1170.01  
22 and 43-1184 and, beginning in 2019, sections 43-1083.03 and 43-1164.04.

23 Sec. 15. Section 43-1021, Arizona Revised Statutes, is amended to  
24 read:

25 43-1021. Additions to Arizona gross income

26 In computing Arizona adjusted gross income, the following amounts shall  
27 be added to Arizona gross income:

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

31 2. An amount equal to the ordinary income portion of a lump sum  
32 distribution that was excluded from federal adjusted gross income pursuant to  
33 ~~section 402(d) of the internal revenue code~~ THE SPECIAL RULE FOR INDIVIDUALS  
34 WHO ATTAINED FIFTY YEARS OF AGE BEFORE JANUARY 1, 1986 UNDER PUBLIC LAW  
35 99-514, SECTION 1122(h)(3).

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

43 ~~4. Annuity income received during the taxable year to the extent that~~  
44 ~~the sum of the proceeds received from such annuity in all taxable years prior~~  
45 ~~to and including the current taxable year exceeds the total consideration and~~

1 ~~premiums paid by the taxpayer. This paragraph applies only to those~~  
2 ~~annuities with respect to which the first payment was received prior to~~  
3 ~~December 31, 1978.~~

4 ~~5.~~ 4. The excess of a partner's share of partnership taxable income  
5 required to be included under chapter 14, article 2 of this title over the  
6 income required to be reported under section 702(a)(8) of the internal  
7 revenue code.

8 ~~6.~~ 5. The excess of a partner's share of partnership losses  
9 determined pursuant to section 702(a)(8) of the internal revenue code over  
10 the losses allowable under chapter 14, article 2 of this title.

11 ~~7.~~ 6. The amount by which the adjusted basis of property described in  
12 this paragraph and computed pursuant to the internal revenue code exceeds the  
13 adjusted basis of such property computed pursuant to this title and the  
14 income tax act of 1954, as amended. This paragraph shall apply to all  
15 property that is held for the production of income and that is sold or  
16 otherwise disposed of during the taxable year, except depreciable property  
17 used in a trade or business.

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

22 ~~9. The amount of gain from the sale or other disposition of a capital~~  
23 ~~investment that a qualified defense contractor has elected to amortize~~  
24 ~~pursuant to section 43-1024.~~

25 ~~10. Amounts withdrawn from the Arizona state retirement system, the~~  
26 ~~corrections officer retirement plan, the public safety personnel retirement~~  
27 ~~system, the elected officials' retirement plan or a county or city retirement~~  
28 ~~plan by an employee on termination of employment before retirement to the~~  
29 ~~extent they were deducted in arriving at Arizona taxable income in any year.~~

30 ~~11. That portion of the net operating loss included in federal adjusted~~  
31 ~~gross income that has already been taken as a net operating loss for Arizona~~  
32 ~~purposes or that is separately taken as a subtraction under the special net~~  
33 ~~operating loss transition rule.~~

34 ~~12. Any nonitemized amount deducted pursuant to section 170 of the~~  
35 ~~internal revenue code representing contributions to an educational~~  
36 ~~institution that denies admission, enrollment or board and room~~  
37 ~~accommodations on the basis of race, color or ethnic background except those~~  
38 ~~institutions primarily established for the education of American Indians.~~

39 ~~13. Amounts withdrawn from a medical savings account by the individual~~  
40 ~~during the taxable year computed pursuant to section 220(f) of the internal~~  
41 ~~revenue code and not included in federal adjusted gross income.~~

42 ~~14.~~ 7. Any amount of agricultural water conservation expenses that  
43 were deducted pursuant to the internal revenue code for which a credit is  
44 claimed under section 43-1084.

1       ~~15.~~ 8. The amount by which the depreciation or amortization computed  
2 under the internal revenue code with respect to property for which a credit  
3 was taken under section 43-1080 exceeds the amount of depreciation or  
4 amortization computed pursuant to the internal revenue code on the Arizona  
5 adjusted basis of the property.

6       ~~16.~~ 9. The amount by which the adjusted basis computed under the  
7 internal revenue code with respect to property for which a credit was claimed  
8 under section 43-1080 and that is sold or otherwise disposed of during the  
9 taxable year exceeds the adjusted basis of the property computed under  
10 section 43-1080.

11       ~~17.~~ 10. The amount by which the depreciation or amortization computed  
12 under the internal revenue code with respect to property for which a credit  
13 was taken under either section 43-1081 or 43-1081.01 exceeds the amount of  
14 depreciation or amortization computed pursuant to the internal revenue code  
15 on the Arizona adjusted basis of the property.

16       ~~18.~~ 11. The amount by which the adjusted basis computed under the  
17 internal revenue code with respect to property for which a credit was claimed  
18 under section 43-1074.02, 43-1081 or 43-1081.01 and that is sold or otherwise  
19 disposed of during the taxable year exceeds the adjusted basis of the  
20 property computed under section 43-1074.02, 43-1081 or 43-1081.01, as  
21 applicable.

22       ~~19.~~ 12. The deduction referred to in section 1341(a)(4) of the  
23 internal revenue code for restoration of a substantial amount held under a  
24 claim of right.

25       ~~20.~~ 13. The amount by which a net operating loss carryover or capital  
26 loss carryover allowable pursuant to section 1341(b)(5) of the internal  
27 revenue code exceeds the net operating loss carryover or capital loss  
28 carryover allowable pursuant to section 43-1029, subsection F.

29       ~~21. Any amount deducted pursuant to section 170 of the internal revenue~~  
30 ~~code representing contributions to a school tuition organization or a public~~  
31 ~~school for which a credit is claimed under section 43-1089, 43-1089.01 or~~  
32 ~~43-1089.03.~~

33       ~~22.~~ 14. Any amount deducted in computing Arizona gross income as  
34 expenses for installing solar stub outs or electric vehicle recharge outlets  
35 in this state with respect to which a credit is claimed pursuant to section  
36 43-1090.

37       ~~23.~~ 15. Any wage expenses deducted pursuant to the internal revenue  
38 code for which a credit is claimed under section 43-1087 and representing net  
39 increases in qualified employment positions for employment of temporary  
40 assistance for needy families recipients.

41       ~~24. Any amount deducted for conveying ownership or development rights~~  
42 ~~of property to an agricultural preservation district under section 48-5702~~  
43 ~~for which a credit is claimed under section 43-1081.02.~~

1       ~~25.~~ 16. The amount of any depreciation allowance allowed pursuant to  
2 section 167(a) of the internal revenue code to the extent not previously  
3 added.

4       ~~26.~~ 17. With respect to property for which an expense deduction was  
5 taken pursuant to section 179 of the internal revenue code in a taxable year  
6 beginning before January 1, 2013, the amount in excess of twenty-five  
7 thousand dollars.

8       ~~27. The amount by which the depreciation or amortization computed under~~  
9 ~~the internal revenue code with respect to property for which a credit was~~  
10 ~~taken under section 43-1090.01 exceeds the amount of depreciation or~~  
11 ~~amortization computed pursuant to the internal revenue code on the Arizona~~  
12 ~~adjusted basis of the property.~~

13       ~~28. The amount by which the adjusted basis computed under the internal~~  
14 ~~revenue code with respect to property for which a credit was claimed under~~  
15 ~~section 43-1090.01 and that is sold or otherwise disposed of during the~~  
16 ~~taxable year exceeds the adjusted basis of the property computed under~~  
17 ~~section 43-1090.01.~~

18       ~~29.~~ 18. The amount of a nonqualified withdrawal, as defined in section  
19 15-1871, from a college savings plan established pursuant to section 529 of  
20 the internal revenue code that is made to a distributee to the extent the  
21 amount is not included in computing federal adjusted gross income, except  
22 that the amount added under this paragraph shall not exceed the difference  
23 between the amount subtracted under section 43-1022 in prior taxable years  
24 and the amount added under this section in any prior taxable years.

25       ~~30. The amount of unemployment compensation that is excluded from~~  
26 ~~federal adjusted gross income pursuant to section 85(c) of the internal~~  
27 ~~revenue code as added by section 1007 of the American recovery and~~  
28 ~~reinvestment act of 2009 (P.L. 111-5).~~

29       ~~31.~~ 19. The amount of discharge of indebtedness income that is  
30 deferred and excluded from the computation of federal adjusted gross income  
31 ~~or federal taxable income~~ in the current taxable year pursuant to section  
32 108(i) of the internal revenue code as added by section 1231 of the American  
33 recovery and reinvestment act of 2009 (P.L. 111-5).

34       ~~32.~~ 20. The amount of any previously deferred original issue discount  
35 that was deducted in computing federal adjusted gross income ~~or federal~~  
36 ~~taxable income~~ in the current year pursuant to section 108(i) of the internal  
37 revenue code as added by section 1231 of the American recovery and  
38 reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was  
39 previously subtracted from Arizona gross income pursuant to section 43-1022,  
40 paragraph ~~31~~ 24.

41       ~~33.~~ 21. For taxable years beginning from and after December 31, 2011  
42 through December 31, 2014, the amount of any deduction that is claimed in  
43 computing federal adjusted gross income for health insurance premiums or  
44 contributions to a health savings account for which a credit is claimed under  
45 section 43-1087.01 ~~or 43-1185.~~

1           22. AMOUNTS THAT ARE CONSIDERED TO BE INCOME UNDER SECTION 43-1032,  
2 SUBSECTION D BECAUSE THE AMOUNT IS WITHDRAWN FROM A LONG-TERM HEALTH CARE  
3 SAVINGS ACCOUNT AND NOT USED TO PAY THE TAXPAYER'S LONG-TERM HEALTH CARE  
4 EXPENSES.

5           Sec. 16. Section 43-1022, Arizona Revised Statutes, is amended to  
6 read:

7           43-1022. Subtractions from Arizona gross income

8           In computing Arizona adjusted gross income, the following amounts shall  
9 be subtracted from Arizona gross income:

10           1. The amount of exemptions allowed by section 43-1023.

11           2. Benefits, annuities and pensions in an amount totaling not more  
12 than two thousand five hundred dollars received from one or more of the  
13 following:

14           (a) The United States government service retirement and disability  
15 fund, retired or retainer pay of the uniformed services of the United States,  
16 the United States foreign service retirement and disability system and any  
17 other retirement system or plan established by federal law.

18           (b) The Arizona state retirement system, the corrections officer  
19 retirement plan, the public safety personnel retirement system, the elected  
20 officials' retirement plan, an optional retirement program established by the  
21 Arizona board of regents under section 15-1628, an optional retirement  
22 program established by a community college district board under section  
23 15-1451 or a retirement plan established for employees of a county, city or  
24 town in this state.

25           3. A beneficiary's share of the fiduciary adjustment to the extent  
26 that the amount determined by section 43-1333 decreases the beneficiary's  
27 Arizona gross income.

28           ~~4. The amount of any distributions from an individual retirement~~  
29 ~~account as provided for in section 408 of the internal revenue code or from a~~  
30 ~~qualified retirement plan of a self-employed individual as provided for in~~  
31 ~~section 401 of the internal revenue code to the extent that total adjustments~~  
32 ~~made pursuant to this paragraph in all tax years do not exceed the total of~~  
33 ~~all contributions made by the taxpayer to such plans before December 31,~~  
34 ~~1975, which were included in computing Arizona taxable income.~~

35           ~~5. The amount of income on an installment receivable that is~~  
36 ~~recognized pursuant to the internal revenue code and that has already been~~  
37 ~~recognized on the death of the taxpayer for purposes of this title for tax~~  
38 ~~years ending before January 1, 1990.~~

39           ~~6.~~ 4. Interest income received on obligations of the United States,  
40 less any interest on indebtedness, or other related expenses, and deducted in  
41 arriving at Arizona gross income, which were incurred or continued to  
42 purchase or carry such obligations.

43           ~~7. The amount of any income tax refunds that were received from states~~  
44 ~~other than Arizona and that were included as income in computing federal~~  
45 ~~adjusted gross income.~~

1           ~~8. Annuity income included in federal adjusted gross income pursuant~~  
2 ~~to section 72 of the internal revenue code if the first payment with respect~~  
3 ~~to such annuity was received before December 31, 1978.~~

4           9. 5. The excess of a partner's share of income required to be  
5 included under section 702(a)(8) of the internal revenue code over the income  
6 required to be included under chapter 14, article 2 of this title.

7           ~~10.~~ 6. The excess of a partner's share of partnership losses  
8 determined pursuant to chapter 14, article 2 of this title over the losses  
9 allowable under section 702(a)(8) of the internal revenue code.

10           ~~11.~~ 7. The amount by which the adjusted basis of property described in  
11 this paragraph and computed pursuant to this title and the income tax act of  
12 1954, as amended, exceeds the adjusted basis of such property computed  
13 pursuant to the internal revenue code. This paragraph shall apply to all  
14 property that is held for the production of income and that is sold or  
15 otherwise disposed of during the taxable year other than depreciable property  
16 used in a trade or business.

17           ~~12. The amount allowed by section 43-1024 for amortization, by a~~  
18 ~~qualified defense contractor certified by the Arizona commerce authority~~  
19 ~~under section 41-1508, of a capital investment for private commercial~~  
20 ~~activities.~~

21           ~~13. The amount of gain included in federal adjusted gross income on the~~  
22 ~~sale or other disposition of a capital investment that a qualified defense~~  
23 ~~contractor has elected to amortize pursuant to section 43-1024.~~

24           ~~14.~~ 8. The amount allowed by section 43-1025 for contributions during  
25 the taxable year of agricultural crops to charitable organizations.

26           ~~15.~~ 9. The portion of any wages or salaries paid or incurred by the  
27 taxpayer for the taxable year that is equal to the amount of the federal work  
28 opportunity credit, the empowerment zone employment credit, the credit for  
29 employer paid social security taxes on employee cash tips and the Indian  
30 employment credit that the taxpayer received under sections 45A, 45B, 51(a)  
31 and 1396 of the internal revenue code.

32           ~~16.~~ 10. The amount of prizes or winnings less than five thousand  
33 dollars in a single taxable year from any of the state lotteries established  
34 and operated pursuant to title 5, chapter 5.1, article 1, ~~except that all~~  
35 ~~such winnings before March 22, 1983, including periodic distributions from~~  
36 ~~such winnings made after March 22, 1983, may be subtracted.~~

37           ~~17.~~ 11. The amount of exploration expenses that is determined pursuant  
38 to section 617 of the internal revenue code, that has been deferred in a  
39 taxable year ending before January 1, 1990 and for which a subtraction has  
40 not previously been made. The subtraction shall be made on a ratable basis  
41 as the units of produced ores or minerals discovered or explored as a result  
42 of this exploration are sold.

43           ~~18.~~ 12. The amount included in federal adjusted gross income pursuant  
44 to section 86 of the internal revenue code, relating to taxation of social  
45 security and railroad retirement benefits.

1       ~~19.~~ 13. To the extent not already excluded from Arizona gross income  
2 under the internal revenue code, compensation received for active service as  
3 a member of the reserves, the national guard or the armed forces of the  
4 United States, including compensation for service in a combat zone as  
5 determined under section 112 of the internal revenue code.

6       ~~20.~~ 14. The amount of unreimbursed medical and hospital costs,  
7 adoption counseling, legal and agency fees and other nonrecurring costs of  
8 adoption not to exceed three thousand dollars. In the case of a husband and  
9 wife who file separate returns, the subtraction may be taken by either  
10 taxpayer or may be divided between them, but the total subtractions allowed  
11 both husband and wife shall not exceed three thousand dollars. The  
12 subtraction under this paragraph may be taken for the costs that are  
13 described in this paragraph and that are incurred in prior years, but the  
14 subtraction may be taken only in the year during which the final adoption  
15 order is granted.

16       ~~21.~~ 15. The amount authorized by section 43-1027 for the taxable year  
17 relating to qualified wood stoves, wood fireplaces or gas fired fireplaces.

18       ~~22. With respect to a medical savings account established pursuant to~~  
19 ~~section 43-1028.~~

20       ~~(a) An eligible individual may subtract:~~

21       ~~(i) The amount of contributions made by the individual's employer~~  
22 ~~during the taxable year to the individual's medical savings account pursuant~~  
23 ~~to section 43-1028 to the extent that the employer contributions are included~~  
24 ~~in the individual's federal adjusted gross income.~~

25       ~~(ii) The amount deposited by the individual in the account during the~~  
26 ~~taxable year to the extent that the individual's contributions are included~~  
27 ~~in the individual's federal adjusted gross income.~~

28       ~~(b) The individual's employer may subtract the amount of contributions~~  
29 ~~made by the employer to a medical savings account established on the~~  
30 ~~individual's behalf to the extent that the contributions are not deductible~~  
31 ~~under the internal revenue code.~~

32       ~~23.~~ 16. The amount by which a net operating loss carryover or capital  
33 loss carryover allowable pursuant to section 43-1029, subsection F exceeds  
34 the net operating loss carryover or capital loss carryover allowable pursuant  
35 to section 1341(b)(5) of the internal revenue code.

36       ~~24.~~ 17. Any amount of qualified educational expenses that is  
37 distributed from a qualified state tuition program determined pursuant to  
38 section 529 of the internal revenue code and that is included in income in  
39 computing federal adjusted gross income.

40       ~~25.~~ 18. Any item of income resulting from an installment sale that has  
41 been properly subjected to income tax in another state in a previous taxable  
42 year and that is included in Arizona gross income in the current taxable  
43 year.

44       ~~26.~~ 19. The amount authorized by section 43-1030 relating to holocaust  
45 survivors.

1           ~~27.~~ 20. For property placed in service:

2           (a) In taxable years beginning before December 31, 2012, an amount  
3 equal to the depreciation allowable pursuant to section 167(a) of the  
4 internal revenue code for the taxable year computed as if the election  
5 described in section 168(k)(2)(D)(iii) of the internal revenue code had been  
6 made for each applicable class of property in the year the property was  
7 placed in service.

8           (b) In taxable years beginning from and after December 31, 2012  
9 through December 31, 2013, an amount determined in the year the asset was  
10 placed in service based on the calculation in subdivision (a) of this  
11 paragraph. In the first taxable year beginning from and after December 31,  
12 2013, the taxpayer may elect to subtract the amount necessary to make the  
13 depreciation claimed to date for the purposes of this title the same as it  
14 would have been if subdivision (c) of this paragraph had applied for the  
15 entire time the asset was in service. Subdivision (c) of this paragraph  
16 applies for the remainder of the asset's life. If the taxpayer does not make  
17 the election under this subdivision, subdivision (a) of this paragraph  
18 applies for the remainder of the asset's life.

19           (c) In taxable years beginning from and after December 31, 2013, an  
20 amount equal to the depreciation allowable pursuant to section 167(a) of the  
21 internal revenue code for the taxable year as computed as if the additional  
22 allowance for depreciation had been ten per cent of the amount allowed  
23 pursuant to section 168(k) of the internal revenue code.

24           ~~28.~~ 21. With respect to property that is sold or otherwise disposed of  
25 during the taxable year by a taxpayer that complied with section 43-1021,  
26 paragraph ~~25~~ 16 with respect to that property, the amount of depreciation  
27 that has been allowed pursuant to section 167(a) of the internal revenue code  
28 to the extent that the amount has not already reduced Arizona taxable income  
29 in the current or prior taxable years.

30           ~~29.~~ 22. With respect to property for which an adjustment was made  
31 under section 43-1021, paragraph ~~26~~ 17, an amount equal to one-fifth of the  
32 amount of the adjustment pursuant to section 43-1021, paragraph ~~26~~ 17 in the  
33 year in which the amount was adjusted under section 43-1021, paragraph ~~26~~ 17  
34 and in each of the following four years.

35           ~~30.~~ 23. The amount contributed during the taxable year to college  
36 savings plans established pursuant to section 529 of the internal revenue  
37 code to the extent that the contributions were not deducted in computing  
38 federal adjusted gross income. The amount subtracted shall not exceed:

39           (a) Two thousand dollars for a single individual or a head of  
40 household.

41           (b) Four thousand dollars for a married couple filing a joint return.  
42 In the case of a husband and wife who file separate returns, the subtraction  
43 may be taken by either taxpayer or may be divided between them, but the total  
44 subtractions allowed both husband and wife shall not exceed four thousand  
45 dollars.

1           ~~31.~~ 24. The amount of any original issue discount that was deferred  
2 and not allowed to be deducted in computing federal adjusted gross income ~~or~~  
3 ~~federal taxable income~~ in the current taxable year pursuant to section 108(i)  
4 of the internal revenue code as added by section 1231 of the American  
5 recovery and reinvestment act of 2009 (P.L. 111-5).

6           ~~32.~~ 25. The amount of previously deferred discharge of indebtedness  
7 income that is included in the computation of federal adjusted gross income  
8 ~~or federal taxable income~~ in the current taxable year pursuant to section  
9 108(i) of the internal revenue code as added by section 1231 of the American  
10 recovery and reinvestment act of 2009 (P.L. 111-5), to the extent that the  
11 amount was previously added to Arizona gross income pursuant to section  
12 43-1021, paragraph ~~31~~ 19.

13           ~~33.~~ 26. The portion of the net operating loss carryforward that would  
14 have been allowed as a deduction in the current year pursuant to section 172  
15 of the internal revenue code if the election described in section  
16 172(b)(1)(H) of the internal revenue code had not been made in the year of  
17 the loss that exceeds the actual net operating loss carryforward that was  
18 deducted in arriving at federal adjusted gross income. This subtraction only  
19 applies to taxpayers who made an election under section 172(b)(1)(H) of the  
20 internal revenue code as amended by section 1211 of the American recovery and  
21 reinvestment act of 2009 (P.L. 111-5) or as amended by section 13 of the  
22 worker, homeownership, and business assistance act of 2009 (P.L. 111-92).

23           ~~34.~~ 27. For taxable years beginning from and after December 31, 2013,  
24 the amount of any net capital gain included in federal adjusted gross income  
25 for the taxable year derived from investment in a qualified small business as  
26 determined by the Arizona commerce authority pursuant to section 41-1518.

27           ~~35.~~ 28. An amount of any net long-term capital gain included in  
28 federal adjusted gross income for the taxable year that is derived from an  
29 investment in an asset acquired after December 31, 2011, as follows:

30           (a) For taxable years beginning from and after December 31, 2012  
31 through December 31, 2013, ten per cent of the net long-term capital gain  
32 included in federal adjusted gross income.

33           (b) For taxable years beginning from and after December 31, 2013  
34 through December 31, 2014, twenty per cent of the net long-term capital gain  
35 included in federal adjusted gross income.

36           (c) For taxable years beginning from and after December 31, 2014,  
37 twenty-five per cent of the net long-term capital gain included in federal  
38 adjusted gross income.

39 For the purposes of this paragraph, a transferee that receives an asset by  
40 gift or at the death of a transferor is considered to have acquired the asset  
41 when the asset was acquired by the transferor. If the date an asset is  
42 acquired cannot be verified, a subtraction under this paragraph is not  
43 allowed.





1 C. The account administrator shall use monies in the account only to  
2 pay for the taxpayer's long-term health care expenses. The account  
3 administrator shall pay for the taxpayer's long-term health care expenses  
4 that are directly based on bills or other evidence of debt. The account  
5 administrator shall reimburse the taxpayer from the taxpayer's long-term  
6 health care savings account for any long-term health care expenses that the  
7 taxpayer directly paid for based on documentation that the taxpayer submits  
8 TO the account administrator.

9 D. If the taxpayer makes any other withdrawal from THE long-term  
10 health care savings account for purposes other than paying long-term health  
11 care expenses, the taxpayer shall pay a penalty, equal to ten per cent of the  
12 amount of the withdrawal, to the department at the same time as the  
13 individual files the income tax return under this title for the taxable year.  
14 Money withdrawn pursuant to this subsection is considered income for the  
15 purposes of computing Arizona adjusted gross income. The department shall  
16 credit penalty monies to the state general fund.

17 E. THE ACCOUNT ADMINISTRATOR SHALL MAKE AN ANNUAL REPORT TO THE  
18 DEPARTMENT AND TO THE TAXPAYER REGARDING THE LONG-TERM HEALTH CARE SAVINGS  
19 ACCOUNT. THE REPORT MUST BE IN A FORM PRESCRIBED BY THE DEPARTMENT AND BE  
20 FURNISHED TO THE DEPARTMENT AND THE TAXPAYER ON OR BEFORE JANUARY 31 OF THE  
21 YEAR FOLLOWING THE CALENDAR YEAR TO WHICH THE REPORT RELATES. THE REPORT  
22 MUST INCLUDE THE FOLLOWING INFORMATION:

23 1. THE DATE AND AMOUNT OF EVERY CONTRIBUTION MADE TO THE ACCOUNT  
24 DURING THE TAXABLE YEAR.

25 2. THE DATE, DESCRIPTION AND AMOUNT OF EVERY DISTRIBUTION MADE FROM  
26 THE ACCOUNT DURING THE TAXABLE YEAR.

27 3. A STATEMENT REGARDING EACH DISTRIBUTION INDICATING WHETHER THE  
28 DISTRIBUTION WAS FOR A LONG-TERM HEALTH CARE EXPENSE OR FOR A WITHDRAWAL THAT  
29 IS REQUIRED TO BE INCLUDED IN INCOME AND IS SUBJECT TO A PENALTY PURSUANT TO  
30 SUBSECTION D OF THIS SECTION.

31 4. THE BALANCE REMAINING IN THE ACCOUNT AT THE END OF THE YEAR.

32 5. ANY OTHER INFORMATION THE DEPARTMENT MAY REQUIRE.

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

34 1. "Account administrator" means A TRUSTEE THAT IS a bank, trust  
35 company, savings and loan association or credit union AND that is authorized  
36 to act as a fiduciary in this state.

37 2. "Long-term health care expense" means any expense paid by the  
38 taxpayer for long-term health care costs, including expenses for skilled  
39 nursing care, home health care, personal care or supportive services due to  
40 the loss of some capacity for self-care based on a chronic illness or  
41 condition.

42 3. "LONG-TERM HEALTH CARE SAVINGS ACCOUNT" MEANS A TRUST ESTABLISHED  
43 OR ORGANIZED IN THIS STATE EXCLUSIVELY FOR THE PURPOSE OF PAYING THE  
44 LONG-TERM HEALTH CARE EXPENSES OF THE TAXPAYER WHO ESTABLISHED AND MADE  
45 CONTRIBUTIONS TO THE ACCOUNT.

1           Sec. 20. Section 43-1042, Arizona Revised Statutes, is amended to  
2 read:

3           43-1042. Itemized deductions

4           A. Except as provided by subsections B, ~~AND D and F~~ of this section,  
5 at the election of the taxpayer, and in lieu of the standard deduction  
6 allowed by section 43-1041, in computing taxable income the taxpayer may take  
7 the amount of itemized deductions allowable for the taxable year pursuant to  
8 subtitle A, chapter 1, subchapter B, parts VI and VII, but subject to the  
9 limitations prescribed by sections 67, 68 and 274, of the internal revenue  
10 code.

11           B. In lieu of the amount of the federal itemized deduction for  
12 expenses paid for medical care allowed under section 213 of the internal  
13 revenue code, the taxpayer may deduct the full amount of such expenses.

14           C. Notwithstanding subsection B of this section, expenses for ~~medical~~  
15 ~~care~~ LONG-TERM HEALTH CARE that are paid or reimbursed from the taxpayer's  
16 ~~medical-savings~~ LONG-TERM HEALTH CARE SAVINGS account pursuant to section  
17 ~~43-1028~~ 43-1032 shall not be deducted pursuant to this section.

18           D. A taxpayer shall not claim both a deduction provided by this  
19 section and a credit allowed by this title with respect to the same  
20 charitable contributions.

21           E. The taxpayer may add any interest expense paid by the taxpayer for  
22 the taxable year that is equal to the amount of federal credit for interest  
23 on certain home mortgages allowed by section 25 of the internal revenue code.

24           ~~F. A taxpayer shall not claim any amount that was deducted pursuant to~~  
25 ~~section 164(b)(6) of the internal revenue code, as added by section 1008 of~~  
26 ~~the American recovery and reinvestment act of 2009 (P.L. 111-5), for~~  
27 ~~qualified motor vehicle taxes.~~

28           Sec. 21. Repeal

29           Sections 43-1081.02, 43-1082 and 43-1090.01, Arizona Revised Statutes,  
30 are repealed.

31           Sec. 22. Section 43-1121, Arizona Revised Statutes, is amended to  
32 read:

33           43-1121. Additions to Arizona gross income: corporations

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

36           ~~1. The amounts computed pursuant to section 43-1021, paragraphs 3~~  
37 ~~through 9, 12, 25, 26, 31, 32 and 33.~~

38           1. THE AMOUNT OF INTEREST INCOME RECEIVED ON OBLIGATIONS OF ANY STATE,  
39 TERRITORY OR POSSESSION OF THE UNITED STATES, OR ANY POLITICAL SUBDIVISION  
40 THEREOF, LOCATED OUTSIDE THIS STATE, REDUCED, FOR TAX YEARS BEGINNING FROM  
41 AND AFTER DECEMBER 31, 1996, BY THE AMOUNT OF ANY INTEREST ON INDEBTEDNESS  
42 AND OTHER RELATED EXPENSES THAT WERE INCURRED OR CONTINUED TO PURCHASE OR  
43 CARRY THOSE OBLIGATIONS AND THAT ARE NOT OTHERWISE DEDUCTED OR SUBTRACTED IN  
44 ARRIVING AT ARIZONA GROSS INCOME.

1           2. THE EXCESS OF A PARTNER'S SHARE OF PARTNERSHIP TAXABLE INCOME  
2 REQUIRED TO BE INCLUDED UNDER CHAPTER 14, ARTICLE 2 OF THIS TITLE OVER THE  
3 INCOME REQUIRED TO BE REPORTED UNDER SECTION 702(a)(8) OF THE INTERNAL  
4 REVENUE CODE.

5           3. THE EXCESS OF A PARTNER'S SHARE OF PARTNERSHIP LOSSES DETERMINED  
6 PURSUANT TO SECTION 702(a)(8) OF THE INTERNAL REVENUE CODE OVER THE LOSSES  
7 ALLOWABLE UNDER CHAPTER 14, ARTICLE 2 OF THIS TITLE.

8           4. THE AMOUNT BY WHICH THE ADJUSTED BASIS OF PROPERTY DESCRIBED IN  
9 THIS PARAGRAPH AND COMPUTED PURSUANT TO THE INTERNAL REVENUE CODE EXCEEDS THE  
10 ADJUSTED BASIS OF SUCH PROPERTY COMPUTED PURSUANT TO THIS TITLE AND THE  
11 INCOME TAX ACT OF 1954, AS AMENDED. THIS PARAGRAPH APPLIES TO ALL PROPERTY  
12 THAT IS HELD FOR THE PRODUCTION OF INCOME AND THAT IS SOLD OR OTHERWISE  
13 DISPOSED OF DURING THE TAXABLE YEAR, EXCEPT DEPRECIABLE PROPERTY USED IN A  
14 TRADE OR BUSINESS.

15           5. THE AMOUNT OF ANY DEPRECIATION ALLOWANCE ALLOWED PURSUANT TO  
16 SECTION 167(a) OF THE INTERNAL REVENUE CODE TO THE EXTENT NOT PREVIOUSLY  
17 ADDED.

18           6. WITH RESPECT TO PROPERTY FOR WHICH AN EXPENSE DEDUCTION WAS TAKEN  
19 PURSUANT TO SECTION 179 OF THE INTERNAL REVENUE CODE IN A TAXABLE YEAR  
20 BEGINNING BEFORE JANUARY 1, 2013, THE AMOUNT IN EXCESS OF TWENTY-FIVE  
21 THOUSAND DOLLARS.

22           7. THE AMOUNT OF DISCHARGE OF INDEBTEDNESS INCOME THAT IS DEFERRED AND  
23 EXCLUDED FROM THE COMPUTATION OF FEDERAL TAXABLE INCOME IN THE CURRENT  
24 TAXABLE YEAR PURSUANT TO SECTION 108(i) OF THE INTERNAL REVENUE CODE AS ADDED  
25 BY SECTION 1231 OF THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009  
26 (P.L. 111-5).

27           8. THE AMOUNT OF ANY PREVIOUSLY DEFERRED ORIGINAL ISSUE DISCOUNT THAT  
28 WAS DEDUCTED IN COMPUTING FEDERAL TAXABLE INCOME IN THE CURRENT YEAR PURSUANT  
29 TO SECTION 108(i) OF THE INTERNAL REVENUE CODE AS ADDED BY SECTION 1231 OF  
30 THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (P.L. 111-5), TO THE  
31 EXTENT THAT THE AMOUNT WAS PREVIOUSLY SUBTRACTED FROM ARIZONA GROSS INCOME  
32 PURSUANT TO SECTION 43-1122, PARAGRAPH 8.

33           9. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2011  
34 THROUGH DECEMBER 31, 2014, THE AMOUNT OF ANY DEDUCTION THAT IS CLAIMED IN  
35 COMPUTING FEDERAL TAXABLE INCOME FOR HEALTH INSURANCE PREMIUMS OR  
36 CONTRIBUTIONS TO A HEALTH SAVINGS ACCOUNT FOR WHICH A CREDIT IS CLAIMED UNDER  
37 SECTION 43-1185.

38           ~~2-~~ 10. The amount of dividend income received from corporations and  
39 allowed as a deduction pursuant to sections 243, 244 and 245 of the internal  
40 revenue code.

41           ~~3-~~ 11. Taxes which are based on income paid to states, local  
42 governments or foreign governments and which were deducted in computing  
43 federal taxable income.

44           ~~4-~~ 12. Expenses and interest relating to tax-exempt income on  
45 indebtedness incurred or continued to purchase or carry obligations the

1 interest on which is wholly exempt from the tax imposed by this title.  
2 Financial institutions, as defined in section 6-101, shall be governed by  
3 section 43-961, paragraph 2.

4 ~~5-~~ 13. Commissions, rentals and other amounts paid or accrued to a  
5 domestic international sales corporation controlled by the payor corporation  
6 if the domestic international sales corporation is not required to report its  
7 taxable income to this state because its income is not derived from or  
8 attributable to sources within this state. If the domestic international  
9 sales corporation is subject to article 4 of this chapter, the department  
10 shall prescribe by rule the method of determining the portion of the  
11 commissions, rentals and other amounts which are paid or accrued to the  
12 controlled domestic international sales corporation and which shall be  
13 deducted by the payor. For the purposes of this paragraph, "control" means  
14 direct or indirect ownership or control of fifty per cent or more of the  
15 voting stock of the domestic international sales corporation by the payor  
16 corporation.

17 ~~6. Federal income tax refunds received during the taxable year to the  
18 extent they were deducted in arriving at Arizona taxable income in a previous  
19 year.~~

20 ~~7-~~ 14. The amount of net operating loss taken pursuant to section 172  
21 of the internal revenue code.

22 ~~8-~~ 15. The amount of exploration expenses determined pursuant to  
23 section 617 of the internal revenue code to the extent that they exceed  
24 seventy-five thousand dollars and to the extent that the election is made to  
25 defer those expenses not in excess of seventy-five thousand dollars.

26 ~~9-~~ 16. Amortization of costs incurred to install pollution control  
27 devices and deducted pursuant to the internal revenue code or the amount of  
28 deduction for depreciation taken pursuant to the internal revenue code on  
29 pollution control devices for which an election is made pursuant to section  
30 43-1129.

31 ~~10-~~ 17. The amount of depreciation or amortization of costs of child  
32 care facilities deducted pursuant to section 167 or 188 of the internal  
33 revenue code for which an election is made to amortize pursuant to section  
34 43-1130.

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

38 ~~12-~~ 18. The loss of an insurance company that is exempt under section  
39 43-1201 to the extent that it is included in computing Arizona gross income  
40 on a consolidated return pursuant to section 43-947.

41 ~~13-~~ 19. The amount by which the depreciation or amortization computed  
42 under the internal revenue code with respect to property for which a credit  
43 was taken under section 43-1169 exceeds the amount of depreciation or  
44 amortization computed pursuant to the internal revenue code on the Arizona  
45 adjusted basis of the property.

1       ~~14.~~ 20. The amount by which the adjusted basis computed under the  
2 internal revenue code with respect to property for which a credit was claimed  
3 under section 43-1169 and which is sold or otherwise disposed of during the  
4 taxable year exceeds the adjusted basis of the property computed under  
5 section 43-1169.

6       ~~15.~~ 21. The amount by which the depreciation or amortization computed  
7 under the internal revenue code with respect to property for which a credit  
8 was taken under either section 43-1170 or 43-1170.01 exceeds the amount of  
9 depreciation or amortization computed pursuant to the internal revenue code  
10 on the Arizona adjusted basis of the property.

11       ~~16.~~ 22. The amount by which the adjusted basis computed under the  
12 internal revenue code with respect to property for which a credit was claimed  
13 under either section 43-1170 or 43-1170.01 and which is sold or otherwise  
14 disposed of during the taxable year exceeds the adjusted basis of the  
15 property computed under section 43-1170 or 43-1170.01, as applicable.

16       ~~17.~~ 23. The deduction referred to in section 1341(a)(4) of the  
17 internal revenue code for restoration of a substantial amount held under a  
18 claim of right.

19       ~~18.~~ 24. The amount by which a capital loss carryover allowable  
20 pursuant to section 1341(b)(5) of the internal revenue code exceeds the  
21 capital loss carryover allowable pursuant to section 43-1130.01,  
22 subsection F.

23       ~~19.~~ 25. Any amount deducted in computing Arizona taxable income as  
24 expenses for installing solar stub outs or electric vehicle recharge outlets  
25 in this state with respect to which a credit is claimed pursuant to section  
26 43-1176.

27       ~~20.~~ 26. Any wage expenses deducted pursuant to the internal revenue  
28 code for which a credit is claimed under section 43-1175 and representing net  
29 increases in qualified employment positions for employment of temporary  
30 assistance for needy families recipients.

31       ~~21.~~ 27. Any amount of expenses that were deducted pursuant to the  
32 internal revenue code and for which a credit is claimed under section  
33 43-1178.

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

37       ~~23.~~ 28. The amount of any deduction that is claimed in computing  
38 Arizona gross income and that represents a donation of a school site for  
39 which a credit is claimed under section 43-1181.

40       ~~24. Any amount deducted in computing Arizona taxable income as expenses  
41 for installing water conservation system plumbing stub outs in this state  
42 with respect to which a credit is claimed pursuant to section 43-1182.~~

43       ~~25.~~ 29. Any amount deducted pursuant to section 170 of the internal  
44 revenue code representing contributions to a school tuition organization for  
45 which a credit is claimed under section 43-1183 or 43-1184.

1           Sec. 23. Section 43-1122, Arizona Revised Statutes, is amended to  
2 read:

3           43-1122. Subtractions from Arizona gross income; corporations

4           In computing Arizona taxable income for a corporation, the following  
5 amounts shall be subtracted from Arizona gross income:

6           ~~1. The amounts computed pursuant to section 43-1022, paragraphs 8  
7 through 15, 27, 28, 30 and 31. For the purposes of this paragraph, "federal  
8 adjusted gross income" as used in section 43-1022 means "federal taxable  
9 income".~~

10           ~~2. The amount of Arizona capital loss carryover as defined in section  
11 43-1124 in an amount not to exceed one thousand dollars.~~

12           1. THE EXCESS OF A PARTNER'S SHARE OF INCOME REQUIRED TO BE INCLUDED  
13 UNDER SECTION 702(a)(8) OF THE INTERNAL REVENUE CODE OVER THE INCOME REQUIRED  
14 TO BE INCLUDED UNDER CHAPTER 14, ARTICLE 2 OF THIS TITLE.

15           2. THE EXCESS OF A PARTNER'S SHARE OF PARTNERSHIP LOSSES DETERMINED  
16 PURSUANT TO CHAPTER 14, ARTICLE 2 OF THIS TITLE OVER THE LOSSES ALLOWABLE  
17 UNDER SECTION 702(a)(8) OF THE INTERNAL REVENUE CODE.

18           3. THE AMOUNT BY WHICH THE ADJUSTED BASIS OF PROPERTY DESCRIBED IN  
19 THIS PARAGRAPH AND COMPUTED PURSUANT TO THIS TITLE AND THE INCOME TAX ACT OF  
20 1954, AS AMENDED, EXCEEDS THE ADJUSTED BASIS OF SUCH PROPERTY COMPUTED  
21 PURSUANT TO THE INTERNAL REVENUE CODE. THIS PARAGRAPH APPLIES TO ALL  
22 PROPERTY THAT IS HELD FOR THE PRODUCTION OF INCOME AND THAT IS SOLD OR  
23 OTHERWISE DISPOSED OF DURING THE TAXABLE YEAR OTHER THAN DEPRECIABLE PROPERTY  
24 USED IN A TRADE OR BUSINESS.

25           4. THE AMOUNT ALLOWED BY SECTION 43-1025 FOR CONTRIBUTIONS DURING THE  
26 TAXABLE YEAR OF AGRICULTURAL CROPS TO CHARITABLE ORGANIZATIONS.

27           5. THE PORTION OF ANY WAGES OR SALARIES PAID OR INCURRED BY THE  
28 TAXPAYER FOR THE TAXABLE YEAR THAT IS EQUAL TO THE AMOUNT OF THE FEDERAL WORK  
29 OPPORTUNITY CREDIT, THE EMPOWERMENT ZONE EMPLOYMENT CREDIT, THE CREDIT FOR  
30 EMPLOYER PAID SOCIAL SECURITY TAXES ON EMPLOYEE CASH TIPS AND THE INDIAN  
31 EMPLOYMENT CREDIT THAT THE TAXPAYER RECEIVED UNDER SECTIONS 45A, 45B, 51(a)  
32 AND 1396 OF THE INTERNAL REVENUE CODE.

33           6. WITH RESPECT TO PROPERTY THAT IS SOLD OR OTHERWISE DISPOSED OF  
34 DURING THE TAXABLE YEAR BY A TAXPAYER THAT COMPLIED WITH SECTION 43-1121,  
35 PARAGRAPH 5 WITH RESPECT TO THAT PROPERTY, THE AMOUNT OF DEPRECIATION THAT  
36 HAS BEEN ALLOWED PURSUANT TO SECTION 167(a) OF THE INTERNAL REVENUE CODE TO  
37 THE EXTENT THAT THE AMOUNT HAS NOT ALREADY REDUCED ARIZONA TAXABLE INCOME IN  
38 THE CURRENT OR PRIOR TAXABLE YEARS.

39           7. WITH RESPECT TO PROPERTY FOR WHICH AN ADJUSTMENT WAS MADE UNDER  
40 SECTION 43-1121, PARAGRAPH 6, AN AMOUNT EQUAL TO ONE-FIFTH OF THE AMOUNT OF  
41 THE ADJUSTMENT PURSUANT TO SECTION 43-1121, PARAGRAPH 6 IN THE YEAR IN WHICH  
42 THE AMOUNT WAS ADJUSTED UNDER SECTION 43-1121, PARAGRAPH 6 AND IN EACH OF THE  
43 FOLLOWING FOUR YEARS.

44           8. THE AMOUNT OF ANY ORIGINAL ISSUE DISCOUNT THAT WAS DEFERRED AND NOT  
45 ALLOWED TO BE DEDUCTED IN COMPUTING FEDERAL TAXABLE INCOME IN THE CURRENT

1 TAXABLE YEAR PURSUANT TO SECTION 108(i) OF THE INTERNAL REVENUE CODE AS ADDED  
2 BY SECTION 1231 OF THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009  
3 (P.L. 111-5).

4 9. THE AMOUNT OF PREVIOUSLY DEFERRED DISCHARGE OF INDEBTEDNESS INCOME  
5 THAT IS INCLUDED IN THE COMPUTATION OF FEDERAL TAXABLE INCOME IN THE CURRENT  
6 TAXABLE YEAR PURSUANT TO SECTION 108(i) OF THE INTERNAL REVENUE CODE AS ADDED  
7 BY SECTION 1231 OF THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009  
8 (P.L. 111-5), TO THE EXTENT THAT THE AMOUNT WAS PREVIOUSLY ADDED TO ARIZONA  
9 GROSS INCOME PURSUANT TO SECTION 43-1121, PARAGRAPH 7.

10 ~~3-~~ 10. With respect to a financial institution as defined in section  
11 6-101, expenses and interest relating to tax-exempt income disallowed  
12 pursuant to section 265 of the internal revenue code.

13 ~~4-~~ 11. Dividends received from another corporation owned or  
14 controlled directly or indirectly by a recipient corporation. For the  
15 purposes of this paragraph, "control" means direct or indirect ownership or  
16 control of fifty per cent or more of the voting stock of the payor  
17 corporation by the recipient corporation. Dividends shall have the meaning  
18 provided in section 316 of the internal revenue code. This subtraction shall  
19 apply without regard to section 43-961, paragraph 2 and article 4 of this  
20 chapter. ~~A corporation that has its commercial domicile, as defined in~~  
21 ~~section 43-1131, in this state may subtract the full amount of the dividends.~~  
22 ~~A corporation that does not have its commercial domicile in this state may~~  
23 ~~subtract:~~

24 ~~(a) For its taxable year beginning in 1990, an amount equal to~~  
25 ~~one half of the dividends.~~

26 ~~(b) For taxable years beginning in 1991 and thereafter, the full~~  
27 ~~amount of the dividends.~~

28 ~~5-~~ 12. Interest income received on obligations of the United States.

29 ~~6-~~ 13. The amount of dividend income from foreign corporations.

30 ~~7-~~ 14. The amount of net operating loss allowed by section 43-1123.

31 ~~8-~~ 15. The amount of any state income tax refunds received which were  
32 included as income in computing federal taxable income.

33 ~~9-~~ 16. The amount of expense recapture included in income pursuant to  
34 section 617 of the internal revenue code for mine exploration expenses.

35 ~~10-~~ 17. The amount of deferred exploration expenses allowed by section  
36 43-1127.

37 ~~11-~~ 18. The amount of exploration expenses related to the exploration  
38 of oil, gas or geothermal resources, computed in the same manner and on the  
39 same basis as a deduction for mine exploration pursuant to section 617 of the  
40 internal revenue code. This computation is subject to the adjustments  
41 contained in section 43-1121, paragraph ~~8-~~ 15 and paragraphs ~~9-~~ 16 and ~~10-~~ 17  
42 of this section relating to exploration expenses.

43 ~~12-~~ 19. The amortization of pollution control devices allowed by  
44 section 43-1129.

1 ~~13.~~ 20. The amount of amortization of the cost of child care  
2 facilities pursuant to section 43-1130.

3 ~~14.~~ 21. The amount of income from a domestic international sales  
4 corporation required to be included in the income of its shareholders  
5 pursuant to section 995 of the internal revenue code.

6 ~~15.~~ 22. The income of an insurance company that is exempt under  
7 section 43-1201 to the extent that it is included in computing Arizona gross  
8 income on a consolidated return pursuant to section 43-947.

9 ~~16. The amount of contributions by the taxpayer during the taxable year  
10 to medical savings accounts established on behalf of the taxpayer's employees  
11 as provided by section 43-1028, to the extent that the contributions are not  
12 deductible under the internal revenue code.~~

13 ~~17.~~ 23. The amount by which a capital loss carryover allowable  
14 pursuant to section 43-1130.01, subsection F exceeds the capital loss  
15 carryover allowable pursuant to section 1341(b)(5) of the internal revenue  
16 code.

17 ~~18.~~ 24. An amount equal to the depreciation allowable pursuant to  
18 section 167(a) of the internal revenue code for the taxable year computed as  
19 if the election described in section 168(k)(2)(D)(iii) of the internal  
20 revenue code had been made for each applicable class of property in the year  
21 the property was placed in service.

22 Sec. 24. Section 43-1123, Arizona Revised Statutes, is amended to  
23 read:

24 43-1123. Net operating loss; definition

25 A. For the purposes of this section, "net operating loss" means:

26 1. In the case of a taxpayer who has a net operating loss for the  
27 taxable year within the meaning of section 172(c) of the internal revenue  
28 code, the amount of the net operating loss increased by the subtractions  
29 specified in section 43-1122, except the subtraction allowed in section  
30 43-1122, paragraph ~~7-~~ 14, and reduced by the additions specified in section  
31 43-1121.

32 2. In the case of a taxpayer not described in paragraph 1 of this  
33 subsection, any excess of the subtractions specified in section 43-1122,  
34 except the subtraction allowed in section 43-1122, paragraph ~~7-~~ 14, over the  
35 sum of the Arizona gross income plus the additions specified in section  
36 43-1121.

37 B. If for any taxable year the taxpayer has a net operating loss:

38 1. Such net operating loss shall be a net operating loss carryover  
39 for:

40 (a) Each of the five succeeding taxable years for net operating losses  
41 arising in taxable periods through December 31, 2011.

42 (b) Each of the twenty succeeding taxable years for net operating  
43 losses arising in taxable periods beginning from and after December 31, 2011.

44 2. The carryover in the case of each such succeeding taxable year,  
45 other than the first succeeding taxable year, shall be the excess, if any, of

1 the amount of such net operating loss over the sum of the taxable income for  
2 each of the intervening years computed by determining the net operating loss  
3 subtraction for each intervening taxable year, without regard to such net  
4 operating loss or to the net operating loss for any succeeding taxable year.

5 C. The amount of the net operating loss subtraction shall be the  
6 aggregate of the net operating loss carryovers to the taxable year.

7 Sec. 25. Repeal

8 Section ~~43-1124~~, Arizona Revised Statutes, is repealed.

9 Sec. 26. Section 43-1127, Arizona Revised Statutes, is amended to  
10 read:

11 ~~43-1127~~. Deferred exploration expenses

12 A. The amount of exploration expenses added to Arizona gross income  
13 pursuant to section 43-1121, paragraph ~~8- 15~~ may be subtracted on a ratable  
14 basis as the units of produced ores or minerals discovered or explored by  
15 reason of such expenditures are sold. An election made for any taxable year  
16 shall be binding for such year.

17 B. If such property is sold, it shall be treated in the same manner  
18 and on the same basis as property held for the production of income pursuant  
19 to section ~~43-1021~~ 43-1121, paragraph ~~7- 4~~ or section ~~43-1022~~ 43-1122,  
20 paragraph ~~1- 3~~.

21 Sec. 27. Section 43-1130.01, Arizona Revised Statutes, is amended to  
22 read:

23 ~~43-1130.01~~. Restoration of a substantial amount held under  
24 claim of right; computation of tax

25 A. This section applies if:

26 1. An item of income was included in gross income for a prior taxable  
27 year or years because it appeared that the taxpayer had an unrestricted right  
28 to the item.

29 2. A deduction would be allowable under the internal revenue code or  
30 this title for the taxable year, without application of section 1341(b)(3) of  
31 the internal revenue code or section 43-1121, paragraph ~~15 23~~, because after  
32 the close of the prior taxable year or years it was established that the  
33 taxpayer did not have an unrestricted right to all or part of the item.

34 3. The amount of the deduction exceeds three thousand dollars.

35 B. If all of the conditions in subsection A of this section apply, the  
36 tax imposed by this chapter for the taxable year is an amount equal to the  
37 tax for the taxable year computed without the deduction, minus the decrease  
38 in tax under this chapter for the prior taxable year or years that would  
39 result solely from excluding the item or portion of the item from gross  
40 income for the prior taxable year or years.

41 C. If the decrease in tax exceeds the tax imposed by this chapter for  
42 the taxable year, computed without the deduction, the excess is considered to  
43 be a payment of tax on the last day prescribed by law for the payment of tax  
44 for the taxable year and shall be refunded or credited in the same manner as  
45 if it were an overpayment for the taxable year.

1 D. Subsection B of this section does not apply to any deduction that  
2 is allowable with respect to an item that was included in gross income by  
3 reason of the sale or other disposition of stock in trade of the taxpayer, or  
4 other property of a kind that would properly have been included in the  
5 inventory of the taxpayer on hand at the close of the prior taxable year, or  
6 property that is held by the taxpayer primarily for sale to customers in the  
7 ordinary course of the taxpayer's trade or business. This subsection does  
8 not apply if the deduction arises out of refunds or repayments with respect  
9 to rates made by a regulated public utility that is listed in section  
10 7701(a)(33)(A) through (H) of the internal revenue code, if the refunds or  
11 repayments are:

12 1. Required to be made by the government, political subdivision,  
13 agency or instrumentality referred to in that section.

14 2. Required to be made by an order of a court.

15 3. Made in settlement of litigation or under threat or imminence of  
16 litigation.

17 E. If the exclusion under subsection B of this section results in:

18 1. A net operating loss for the prior taxable year or years for  
19 purposes of computing the decrease in tax for the prior year or years under  
20 subsection B of this section:

21 (a) The loss shall be carried over under this chapter to the same  
22 extent and in the same manner as provided under section 43-1123, and under  
23 prior law.

24 (b) No carryover beyond the taxable year may be taken into account.

25 2. A capital loss for the prior taxable year or years, for purposes of  
26 computing the decrease in tax for the prior taxable year or years under  
27 subsection B of this section:

28 (a) The loss shall be:

29 (i) Carried over under this chapter to the same extent and in the same  
30 manner as was provided under prior law for taxable years beginning on or  
31 before December 31, 1987.

32 (ii) Carried back and carried over to the same extent and in the same  
33 manner as provided under section 1212 of the internal revenue code for  
34 taxable years beginning from and after December 31, 1987.

35 (b) No carryover beyond the taxable year may be taken into account.

36 F. In computing Arizona taxable income for taxable years subsequent to  
37 the current taxable year, the net operating loss or capital loss determined  
38 in subsection E of this section shall be taken into account to the same  
39 extent and in the same manner as a net operating loss or capital loss  
40 sustained for prior taxable years.

41 Sec. 28. Repeal

42 Sections 43-1180 and 43-1182, Arizona Revised Statutes, are repealed.



1 ~~F. Notwithstanding subsection A of this section, a trust established~~  
2 ~~as a medical savings account trust pursuant to section 43-1028 shall not add~~  
3 ~~the amount of interest income received on obligations of a state, territory~~  
4 ~~or possession of the United States, or a political subdivision of a state,~~  
5 ~~territory or possession of the United States that is located outside of this~~  
6 ~~state.~~

7 Sec. 31. Section 43-1504, Arizona Revised Statutes, is amended to  
8 read:

9 43-1504. Special provisions; corporate donations for low-income  
10 scholarships; rules

11 A. A school tuition organization that receives contributions from a  
12 corporation for the purposes of section 20-224.06 or 43-1183 must use at  
13 least ninety per cent of those contributions to provide educational  
14 scholarships or tuition grants only to children whose family income does not  
15 exceed one hundred eighty-five per cent of the income limit required to  
16 qualify a child for reduced price lunches under the national school lunch and  
17 child nutrition acts (42 United States Code sections 1751 through 1785) and  
18 to whom any of the following applies:

19 1. Attended a governmental primary or secondary school as a full-time  
20 student as defined in section 15-901 or attended a preschool program that  
21 offers services to students with disabilities at a governmental school for at  
22 least ninety days of the prior fiscal year or one full semester and  
23 transferred from a governmental school to a qualified school.

24 2. Enroll in a qualified school in a kindergarten program or a  
25 preschool program that offers services to students with disabilities.

26 3. Is the dependent of a member of the armed forces of the United  
27 States who is stationed in this state pursuant to military orders.

28 4. Received an educational scholarship or tuition grant under  
29 paragraph 1, 2 or 3 of this subsection or chapter 16, article 1 of this title  
30 if the children continue to attend a qualified school in a subsequent year.

31 B. A child is eligible to receive an educational scholarship or  
32 tuition grant under subsection A of this section if the child meets the  
33 criteria to receive a reduced price lunch but does not actually claim that  
34 benefit.

35 C. In 2006, a school tuition organization shall not issue an  
36 educational scholarship or a tuition grant for the purposes of section  
37 20-224.06 or 43-1183 in an amount that exceeds four thousand two hundred  
38 dollars for students in a ~~kindergarten~~ **DISABLED PRESCHOOL OR KINDERGARTEN**  
39 program or grades one through eight or five thousand five hundred dollars for  
40 students in grades nine through twelve. In each year after 2006, the  
41 limitation amount for a scholarship or a grant under this subsection shall be  
42 increased by one hundred dollars.

43 D. A school tuition organization shall require that student  
44 beneficiaries use the educational scholarships or tuition grants on a  
45 full-time basis. If a child leaves the school before completing an entire

1 school year, the school shall refund a prorated amount of the educational  
2 scholarship or tuition grant to the school tuition organization that issued  
3 the scholarship or grant. The school tuition organization shall allocate any  
4 refunds it receives under this subsection for educational scholarships or  
5 tuition grants.

6 E. Students who receive an educational scholarship or tuition grant  
7 under this section shall be allowed to attend any qualified school of their  
8 parents' choice.

9 F. The department of revenue, with the cooperation of the department  
10 of insurance, shall adopt rules and publish and prescribe forms and  
11 procedures necessary for the administration of this section.

12 Sec. 32. Section 43-1603, Arizona Revised Statutes, is amended to  
13 read:

14 43-1603. Operational requirements for school tuition  
15 organizations; notice; qualified schools

16 A. A certified school tuition organization must be established to  
17 receive contributions from taxpayers for the purposes of income tax credits  
18 under sections 43-1089 and 43-1089.03 and to pay educational scholarships or  
19 tuition grants to allow students to attend any qualified school of their  
20 parents' choice.

21 B. To be eligible for certification and retain certification, the  
22 school tuition organization:

23 1. Must allocate at least ninety per cent of its annual revenue from  
24 contributions made for the purposes of sections 43-1089 and 43-1089.03 for  
25 educational scholarships or tuition grants.

26 2. Shall not limit the availability of educational scholarships or  
27 tuition grants to only students of one school.

28 3. May allow donors to recommend student beneficiaries, but shall not  
29 award, designate or reserve scholarships solely on the basis of donor  
30 recommendations.

31 4. Shall not allow donors to designate student beneficiaries as a  
32 condition of any contribution to the organization, or facilitate, encourage  
33 or knowingly permit the exchange of beneficiary student designations in  
34 violation of section 43-1089, subsection F.

35 C. A school tuition organization shall include the following notice in  
36 any printed materials soliciting donations, in applications for scholarships  
37 and on its website:

38 Notice

39 A school tuition organization cannot award, restrict or  
40 reserve scholarships solely on the basis of a donor's  
41 recommendation.

42 A taxpayer may not claim a tax credit if the taxpayer  
43 agrees to swap donations with another taxpayer to benefit either  
44 taxpayer's own dependent.

1 D. In evaluating applications and awarding, designating or reserving  
2 scholarships, a school tuition organization:

3 1. Shall not award, designate or reserve a scholarship solely on the  
4 recommendation of any person contributing money to the organization, but may  
5 consider the recommendation among other factors.

6 2. Shall consider the financial need of applicants.

7 E. A taxpayer's contribution to a school tuition organization that  
8 exceeds the amount of the credit allowed by section 43-1089 but does not  
9 exceed the amount of the credit allowed by section 43-1089.03 is considered a  
10 contribution pursuant to section 43-1089.03. A school tuition organization  
11 must use at least ninety per cent of contributions made pursuant to section  
12 43-1089.03 for educational scholarships or tuition grants for students to  
13 whom any of the following applies:

14 1. Attended a governmental primary or secondary school as a full-time  
15 student as defined in section 15-901 or attended a preschool program that  
16 offers services to students with disabilities at a governmental school for at  
17 least ninety days of the prior fiscal year and transferred from a  
18 governmental school to a qualified school.

19 2. Enrolls in a qualified school in a kindergarten program or a  
20 preschool program that offers services to students with disabilities.

21 3. Is the dependent of a member of the armed forces of the United  
22 States who is stationed in this state pursuant to military orders.

23 4. Received an educational scholarship or tuition grant under  
24 paragraph 1, 2 or 3 of this subsection or under chapter 15 of this title if  
25 the student continues to attend a qualified school in a subsequent year.

26 F. In awarding educational scholarships or tuition grants from  
27 contributions made pursuant to section 43-1089.03, a school tuition  
28 organization shall give priority to students and siblings of students on a  
29 waiting list for scholarships if the school tuition organization maintains a  
30 waiting list.

31 G. If an individual educational scholarship or tuition grant exceeds  
32 the school's ~~total cost of educating that student~~ TUITION, the amount in  
33 excess shall be returned to the school tuition organization that made the  
34 award or grant. The school tuition organization may allocate the returned  
35 monies as a multiyear award for that student and report the award pursuant to  
36 section 43-1604, paragraph 5, subdivision (b) or may allocate the returned  
37 monies for educational scholarships or tuition grants for other students.

38 Sec. 33. Effect on preexisting tax credits

39 The repeal of sections 43-1090.01 and 43-1182, Arizona Revised  
40 Statutes, by this act, does not affect the use of any carryovers from unused  
41 credits earned before the repeal.

42 Sec. 34. Effective date

43 Section 42-2003, Arizona Revised Statutes, as amended by Laws 2013,  
44 first regular session, chapter 40, section 2, chapter 114, section 6 and  
45 chapter 222, section 3 and Laws 2013, first special session, chapter 9,

1 section 3 and this act, section 42-5009, Arizona Revised Statutes, as amended  
2 by Laws 2013, chapter 40, section 3 and this act, section 42-5010, Arizona  
3 Revised Statutes, as amended by Laws 2013, chapter 255, section 6 and this  
4 act, section 42-5075, Arizona Revised Statutes, as amended by Laws 2013,  
5 first regular session, chapter 153, section 1 and Laws 2013, first special  
6 session, chapter 9, section 6 and this act, and section 42-6004, Arizona  
7 Revised Statutes, as amended by Laws 2013, first regular session, chapter 27,  
8 section 2, chapter 120, section 2, chapter 153, section 2 and chapter 236,  
9 section 6 and Laws 2013, first special session, chapter 9, section 8 and this  
10 act, are effective from and after December 31, 2014.