REFERENCE TITLE: 2014 tax corrections

State of Arizona
Senate
Fifty-first Legislature
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2014

SB 1301

Introduced by
Senator Yarbrough

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 42-11054, 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)

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

Section 1. 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, is amended to read:

42-2003. Authorized disclosure of confidential information

A. Confidential information relating to:

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

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

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

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

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

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

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

B. Confidential information may be disclosed to:

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

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

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

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

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

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

(b) A state tax official of another state.

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

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

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

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

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

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

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

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

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

(a) Regarding income tax or withholding tax.

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

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

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

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

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

12. The Arizona commerce authority for its use in:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

E. The department, on the request of any person, shall provide the names and addresses of bingo licensees as defined in section 5-401, verify whether or not a person has a privilege license and number, a distributor's license and number or a withholding license and number or disclose the information to be posted on the department's website or otherwise publicly accessible pursuant to section 42-1124, subsection F and section 42-3201, subsection A.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. May only be used by the city, town or county for internal purposes.

2. May not be disclosed to the public in any manner that does not comply with confidentiality standards established by the department. The city, town or county must agree with the department in writing that any release of confidential information that violates the confidentiality standards will result in the immediate suspension of any rights of the city, town or county to receive information under this subsection.

Sec. 2. Repeal

Section 42-2003, Arizona Revised Statutes, as amended by Laws 2013, chapter 255, section 2, is repealed.

Sec. 3. Section 42-5009, Arizona Revised Statutes, as amended by Laws 2013, chapter 40, section 3, is amended to read:

42-5009. Certificates establishing deductions; liability for making false certificate

A. A person who conducts any business classified under article 2 of this chapter may establish entitlement to the allowable deductions from the tax base of that business by both:

1. Marking the invoice for the transaction to indicate that the gross proceeds of sales or gross income derived from the transaction was deducted from the tax base.

2. Obtaining a certificate executed by the purchaser indicating the name and address of the purchaser, the precise nature of the business of the purchaser, the purpose for which the purchase was made, the necessary facts to establish the appropriate deduction and the tax license number of the purchaser to the extent the deduction depends on the purchaser conducting business classified under article 2 of this chapter and a certification that the person executing the certificate is authorized to do so on behalf of the purchaser. The certificate may be disregarded if the seller has reason to believe that the information contained in the certificate is not accurate or complete.

B. A person who does not comply with subsection A of this section may establish entitlement to the deduction by presenting facts necessary to support the entitlement, but the burden of proof is on that person.

C. The department may prescribe a form for the certificate described in subsection A of this section. Under such rules as it may prescribe, the department may also describe transactions with respect to which a person is not entitled to rely solely on the information contained in the certificate provided for in subsection A of this section but must instead obtain such additional information as required by the rules in order to be entitled to the deduction.

D. If a seller is entitled to a deduction by complying with subsection A of this section, the department may require the purchaser that caused the execution of the certificate to establish the accuracy and completeness of the information required to be contained in the certificate that would entitle the seller to the deduction. If the purchaser cannot establish the accuracy and completeness of the information, the purchaser is liable in an amount equal to any tax, penalty and interest that the seller would have been required to pay under this article if the seller had not complied with subsection A of this section. Payment of the amount under this subsection exempts the purchaser from liability for any tax imposed under article 4 of this chapter. The amount shall be treated as tax revenues collected from the seller in order to designate the distribution base for purposes of section 42-5029.

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

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

G. If a seller claims a deduction under section 42-5061, subsection A, paragraph 25 and establishes entitlement to the deduction with an exemption letter that the purchaser received from the department and the exemption letter was based on a contingent event, the department may require the purchaser that received the exemption letter to establish the satisfaction of the contingent event within a reasonable time. If the purchaser cannot establish the satisfaction of the event, the purchaser is liable in an amount equal to any tax, penalty and interest that the seller would have been required to pay under this article if the seller had not been furnished the exemption letter. Payment of the amount under this subsection exempts the purchaser from liability for any tax imposed under article 4 of this chapter. The amount shall be treated as tax revenues collected from the seller in order to designate the distribution base for purposes of section 42-5029. For the purposes of this subsection, "reasonable time" means a time limitation that the department determines and that does not exceed the time limitations pursuant to section 42-1104.

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

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

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

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

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

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

J. To establish entitlement to the deduction described in section 42-5061, subsection A, paragraph ~~45~~ 44, a public consignment auction dealer as defined in section ~~28-4410.01~~ 28-4301 shall submit the valid certificate prescribed by subsection H of this section to the department and retain a copy for its records.

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

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

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

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

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

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

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

Sec. 4. Repeal

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

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

42-5010. Rates; distribution base

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

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

(a) Transporting classification.

(b) Utilities classification.

(c) Telecommunications classification.

(d) Pipeline classification.

(e) Private car line classification.

(f) Publication classification.

(g) Job printing classification.

(h) Prime contracting classification.

(i) Amusement classification.

(j) Restaurant classification.

(k) Personal property rental classification.

(l) Retail classification.

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

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

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

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

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

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

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

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

G. In addition to the rates prescribed by subsection A of this section, if approved by the qualified electors voting at a statewide general election, an additional rate increment is imposed and shall be collected through June 30, 2021. The taxpayer shall pay taxes pursuant to this subsection at the same time and in the same manner as under subsection A of this section. The department shall separately account for the revenues collected with respect to the rates imposed pursuant to this subsection and the state treasurer shall distribute all of those revenues in the manner prescribed by section 42-5029, subsection E. The rates imposed pursuant to this subsection shall not be considered local revenues for purposes of article IX, section 21, Constitution of Arizona. The additional tax rate increment is levied at the rate of six-tenths of one per cent of the tax base of every person engaging or continuing in this state in a business classification listed in subsection A, paragraph 1 of this section.

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

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

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

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

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

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

Sec. 6. Section 42-5039, Arizona Revised Statutes, is amended to read:

42-5039. Qualified destination management companies; definitions

A. A qualified destination management company is not subject to transaction privilege tax under this chapter on the gross proceeds of ~~sale~~ SALES or gross income derived from a qualified contract for destination management services. THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED BY A QUALIFIED DESTINATION MANAGEMENT COMPANY FROM TRANSACTIONS THAT ARE NOT PART OF A QUALIFIED CONTRACT FOR DESTINATION MANAGEMENT SERVICES ARE SUBJECT TO TAX UNDER THIS CHAPTER.

B. A qualified destination management company is a final consumer and user of any tangible personal property, activity or service subject to transaction privilege tax under article 2 of this chapter that the qualified destination management company arranges pursuant to a qualified contract for destination management services.

C. For the purposes of this section:

1. "Destination management services" means the business of coordinating, designing and implementing the delivery by a third party of four or more of the following:

(a) Transportation.

(b) Entertainment.

(c) Food or beverage.

(d) Recreational or amusement activity.

(e) Tours.

(f) Event venue.

(g) Theme decor.

2. "Qualified contract" means a contract for the provision of destination management services by a qualified destination management company where both of the following apply:

(a) The qualified destination management company receives payment from or on behalf of the qualified destination management company's client for the cost of the destination management services arranged by the qualified destination management company.

(b) The qualified destination management company pays the vendor supplying the destination management services arranged by the qualified destination management company including any applicable transaction privilege tax or collection of use tax charged by the vendor to the qualified destination management company.

3. "Qualified destination management company" means a person that receives on an annual basis at least eighty per cent of its gross proceeds of sales or gross income derived from destination management services.

Sec. 7. Section 42-5069, Arizona Revised Statutes, is amended to read:

42-5069. Commercial lease classification; definitions

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

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

C. The commercial lease classification does not include:

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

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

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

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

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

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

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

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

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

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

6. Leasing real property for boarding horses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

E. Notwithstanding section 42-1104, subsection B, paragraph 1, subdivision (b) and paragraph 2, the failure to file tax returns for the commercial lease classification that report gross income derived from any agreement that constitutes, in whole or in part, a grant of a right of profit à prendre for the severance of minerals does not constitute an exception to the general rule for the statute of limitations.

F. For the purposes of this section:

1. "Leasing" includes renting.

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

Sec. 8. 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, is amended to read:

42-5075. Prime contracting classification; exemptions; definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) The deduction provided in this paragraph does not include gross proceeds of sales or gross income from the portion of any contracting activity that consists of the development of, or modification to, real property in order to facilitate the installation, assembly, repair, maintenance or removal of machinery, equipment or other tangible personal property that is either deducted from the tax base of the retail classification under section 42-5061, subsection B or exempt from use tax under section 42-5159, subsection B.

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

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

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

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

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

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

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

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

(b) Section 42-5061, subsection B.

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

(d) Section 42-5159, subsection B.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) Master schedule updates.

(ii) Modification work cash flow projection updates.

(iii) Site reports made on a periodic basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(vi) Any bond and insurance premiums.

(vii) Any applicable taxes.

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

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

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

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

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

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

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

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

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

P. For the purposes of this section:

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

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

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

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

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

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

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

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

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

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

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

Sec. 9. Repeal

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

Sec. 10. 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, is amended to read:

42-6004. Exemption from municipal tax

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

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

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

3. Sales of warranty or service contracts.

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

5. Interest on finance contracts.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 11. Repeal

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

Sec. 12. Section 42-11054, Arizona Revised Statutes, is amended to read:

42-11054. Standard appraisal methods and techniques

A. Subject to subsection B of this section, the department shall:

1. Prescribe guidelines for applying standard appraisal methods and techniques that shall be used by the department and county assessors in determining the valuation of property.

2. Prepare and maintain manuals and other necessary guidelines, consistent with this section, reflecting the standard methods and techniques to perpetuate a current inventory of taxable property and the valuation of that property.

B. Before they are adopted, the department shall submit each substantive proposed guideline, table and manual that is developed, amended or otherwise modified from and after December 31, 2006 to the joint legislative oversight committee on property tax assessment and appeals. The department shall not finally adopt, amend or otherwise modify a substantive guideline, table or manual for at least thirty days after submitting the measure to the committee. The committee may hold one or more informational hearings on the proposed measure within thirty days after submission. In adopting, amending or modifying the measure the department shall consider the committee's comments. If the committee fails to hold a hearing within thirty days after submission, the department may adopt, amend or modify the measure without further consideration.

C. In applying prescribed standard appraisal methods and techniques:

1. Current usage shall be included in the formula for reaching a determination of full cash value.

2. Solar energy devices, as defined in section 44-1761, grid-tied photovoltaic systems and any other device or system designed for the production of solar energy primarily for ~~on-site consumption~~ SELF-CONSUMPTION are considered to have no value and to add no value to the property on which such device or system is installed.

3. Energy efficient building components, renewable energy equipment and combined heat and power systems are considered to add no value to the property, if the property owner provides the county assessor with documentation of all elements that qualify pursuant to this paragraph, including documents showing actual acquisition and installation costs. The documentation must be submitted to the county assessor no later than six months before the notice of full cash value is issued for the initial evaluation year pursuant to section 42-15101 or, if the component is added after September 30 of the preceding year, no later than March 31 of the initial valuation year. For the purposes of this paragraph:

(a) "Combined heat and power system" means a system that generates electricity or mechanical power and useful thermal energy in a single, integrated system such that the useful power output of the facility plus one-half the useful thermal output during any twelve-month period is no less than 42.5 per cent of the total energy input of fuel to the facility.

(b) "Energy efficient building components" means high performance sustainable building components installed so that the buildings or building components meet or exceed the energy efficiencies prescribed by the United States environmental protection agency energy star program or by a leadership in energy and environmental design green building rating standard developed by the United States green building council, or an equivalent green building standard, or that are at least fifteen per cent more energy efficient than the international energy conservation code in effect at the time of building permit issuance.

(c) "Renewable energy equipment" means equipment that is used to produce energy primarily for ~~on-site consumption~~ SELF-CONSUMPTION from renewable resources, including wind, forest thinnings, agricultural waste, biogas, biomass, geothermal, low-impact hydropower and solar energy not included under paragraph 2 of this subsection.

D. If the methods and techniques prescribe using market data as an indication of market value, the price paid for future anticipated property value increments shall be excluded.

E. For THE purposes of determining full cash value the department and county assessors shall use and apply the ratio standard guidelines issued by the department for tax year 1993 in the same manner as they were applied in tax year 1993. This subsection does not apply to property that is valued according to prescribed statutory methods or to property for which values are determined in the year after an appeal pursuant to section 42-16002.

Sec. 13. Section 42-12001, Arizona Revised Statutes, is amended to read:

42-12001. Class one property

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

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

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

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

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

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

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

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

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

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

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

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

12. Real property and improvements that are devoted to any other commercial or industrial use, other than property that is specifically

included in another class described in this article, and that are valued at full cash value.

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

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

Sec. 14. Section 42-12101, Arizona Revised Statutes, is amended to read:

42-12101. Definitions

In this article, unless the context otherwise requires:

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

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

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

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

2. "Noncommercial historic property" means real property:

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

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

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

Sec. 15. Section 43-222, Arizona Revised Statutes, is amended to read:

43-222. Income tax credit review schedule

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

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

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

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

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

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

Sec. 16. Section 43-1021, Arizona Revised Statutes, is amended to read:

43-1021. Additions to Arizona gross income

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 17. Section 43-1022, Arizona Revised Statutes, is amended to read:

43-1022. Subtractions from Arizona gross income

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

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

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

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

(b) The Arizona state retirement system, the corrections officer retirement plan, the public safety personnel retirement system, the elected officials' retirement plan, an optional retirement program established by the Arizona board of regents under section 15-1628, an optional retirement program established by a community college district board under section

15-1451 or a retirement plan established for employees of a county, city or town in this state.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~36.~~ 29. If an individual is not claiming itemized deductions pursuant to section 43-1042, the amount of premium costs for long-term care insurance, as defined in section 20-1691.

~~37.~~ 30. With respect to a long-term health care savings account established pursuant to section 43-1032, the amount deposited by the taxpayer in the account during the taxable year to the extent that the taxpayer's contributions are included in the taxpayer's federal adjusted gross income.

Sec. 18. Repeal

Sections 43-1024 and 43-1028, Arizona Revised Statutes, are repealed.

Sec. 19. Section 43-1029, Arizona Revised Statutes, is amended to read:

43-1029. Restoration of a substantial amount held under claim of right; computation of tax

A. This section applies if:

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

2. A deduction would be allowable under the internal revenue code or this title for the taxable year, without application of section 1341(b)(3) of the internal revenue code or section 43-1021, paragraph ~~19~~ 12, because after

the close of the prior taxable year or years it was established that the taxpayer did not have an unrestricted right to all or part of the item.

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

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

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

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

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

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

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

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

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

(a) The loss shall be:

(i) Carried over under this chapter to the same extent and in the same manner as was provided under prior law for taxable years beginning on or before December 31, 1989.

(ii) Carried back and carried over to the same extent and in the same manner as provided under section 172 of the internal revenue code for taxable years beginning from and after December 31, 1989.

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

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

(a) The loss shall be carried back and carried over to the same extent and in the same manner as is provided under section 1212 of the internal revenue code.

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

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

Sec. 20. Section 43-1032, Arizona Revised Statutes, is amended to read:

43-1032. Long-term health care savings accounts; report; definitions

A. For taxable years beginning from and after December 31, 2012, in computing Arizona adjusted gross income ~~a~~ AN ARIZONA RESIDENT taxpayer may subtract amounts contributed IN CASH DURING THE TAXABLE YEAR to a long-term health care savings account as provided by this section to the extent that the contributions are included in the individual's federal adjusted gross income.

B. For the purposes of this section, a taxpayer may establish a long-term health care savings account with an account administrator. To establish an account, the taxpayer shall enter into an agreement with the account administrator. The account administrator shall administer the account and has a fiduciary duty to the taxpayer who makes contributions to the account.

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

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

E. THE ACCOUNT ADMINISTRATOR SHALL MAKE AN ANNUAL REPORT TO THE DEPARTMENT AND TO THE TAXPAYER REGARDING THE LONG-TERM HEALTH CARE SAVINGS ACCOUNT. THE REPORT MUST BE IN A FORM PRESCRIBED BY THE DEPARTMENT AND BE FURNISHED TO THE DEPARTMENT AND THE TAXPAYER ON OR BEFORE JANUARY 31 OF THE

YEAR FOLLOWING THE CALENDAR YEAR TO WHICH THE REPORT RELATES. THE REPORT MUST INCLUDE THE FOLLOWING INFORMATION:

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

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

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

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

5. ANY OTHER INFORMATION THE DEPARTMENT MAY REQUIRE.

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

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

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

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

Sec. 21. Section 43-1042, Arizona Revised Statutes, is amended to read:

43-1042. Itemized deductions

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

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

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

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

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

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

Sec. 22. Repeal

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

Sec. 23. Section 43-1121, Arizona Revised Statutes, is amended to read:

43-1121. Additions to Arizona gross income; corporations

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

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

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

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

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

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

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

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

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

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

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

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

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

~~4.~~ 12. Expenses and interest relating to tax-exempt income on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from the tax imposed by this title. Financial institutions, as defined in section 6-101, shall be governed by section 43-961, paragraph 2.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 24. Section 43-1122, Arizona Revised Statutes, is amended to read:

43-1122. Subtractions from Arizona gross income; corporations

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

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

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

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

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

3. THE AMOUNT BY WHICH THE ADJUSTED BASIS OF PROPERTY DESCRIBED IN THIS PARAGRAPH AND COMPUTED PURSUANT TO THIS TITLE AND THE INCOME TAX ACT OF 1954, AS AMENDED, EXCEEDS THE ADJUSTED BASIS OF SUCH PROPERTY COMPUTED

PURSUANT TO THE INTERNAL REVENUE CODE. THIS PARAGRAPH APPLIES TO ALL PROPERTY THAT IS HELD FOR THE PRODUCTION OF INCOME AND THAT IS SOLD OR OTHERWISE DISPOSED OF DURING THE TAXABLE YEAR OTHER THAN DEPRECIABLE PROPERTY USED IN A TRADE OR BUSINESS.

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

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

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

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

8. THE AMOUNT OF ANY ORIGINAL ISSUE DISCOUNT THAT WAS DEFERRED AND NOT ALLOWED TO BE DEDUCTED IN COMPUTING FEDERAL TAXABLE INCOME IN THE CURRENT TAXABLE YEAR PURSUANT TO SECTION 108(i) OF THE INTERNAL REVENUE CODE AS ADDED BY SECTION 1231 OF THE AMERICAN RECOVERY AND REINVESTMENT ACT OF 2009 (P.L. 111-5).

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

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

~~4.~~ 11. Dividends received from another corporation owned or controlled directly or indirectly by a recipient corporation. For the purposes of this paragraph, "control" means direct or indirect ownership or control of fifty per cent or more of the voting stock of the payor corporation by the recipient corporation. Dividends shall have the meaning provided in section 316 of the internal revenue code. This subtraction shall apply without regard to section 43-961, paragraph 2 and article 4 of this chapter. ~~A corporation that has its commercial domicile, as defined in~~

~~section 43-1131, in this state may subtract the full amount of the dividends. A corporation that does not have its commercial domicile in this state may subtract:~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 25. Section 43-1123, Arizona Revised Statutes, is amended to read:

43-1123. Net operating loss; definition

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

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

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

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

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

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

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

2. The carryover in the case of each such succeeding taxable year, other than the first succeeding taxable year, shall be the excess, if any, of the amount of such net operating loss over the sum of the taxable income for each of the intervening years computed by determining the net operating loss subtraction for each intervening taxable year, without regard to such net operating loss or to the net operating loss for any succeeding taxable year.

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

Sec. 26. Repeal

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

Sec. 27. Section 43-1127, Arizona Revised Statutes, is amended to read:

43-1127. Deferred exploration expenses

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

B. If such property is sold, it shall be treated in the same manner and on the same basis as property held for the production of income pursuant to section 43-1021, paragraph ~~7~~ 6 or section ~~43-1022~~ 43-1122, paragraph ~~11~~ 3.

Sec. 28. Section 43-1130.01, Arizona Revised Statutes, is amended to read:

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

A. This section applies if:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) The loss shall be:

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

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

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

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

Sec. 29. Repeal

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

Sec. 30. Section 43-1332, Arizona Revised Statutes, is amended to read:

43-1332. Subtractions from Arizona gross income; estates and trusts

In computing Arizona taxable income of an estate or trust, the following shall be subtracted from Arizona gross income:

1. The estate or trust's share of the fiduciary adjustment to the extent that the amount determined pursuant to section 43-1333 decreases the estate or trust's Arizona gross income.

~~2. In the case of a trust that is established as a medical savings account pursuant to section 43-1028, income earned by the trust during the taxable year to the extent the income is included in the trust's Arizona gross income.~~

~~3.~~ 2. In the case of an estate, the amount of federal estate taxes paid in the current taxable year.

Sec. 31. Section 43-1333, Arizona Revised Statutes, is amended to read:

43-1333. Fiduciary adjustment; allocation of shares

A. The fiduciary adjustment for a resident estate or trust shall be the net amount of the additions and subtractions required by sections 43-1021 and 43-1022 including the addition required by section 43-1021, paragraph 1 or the subtraction required by section 43-1022, paragraph 3 if the estate or trust is a beneficiary of another estate or trust.

B. In the case of a nonresident estate or trust, the fiduciary adjustment shall be the net amount of the additions and subtractions required by sections 43-1021 and 43-1022 that are derived from or related to income from sources within this state.

C. The estate or trust and its beneficiaries shall apportion the fiduciary adjustment in the same proportion as their respective shares of federal distributable net income of the estate or trust.

D. If the estate or trust has no federal distributable net income for the taxable year, the share of each beneficiary in the fiduciary adjustment shall be in proportion to the beneficiary's share of the estate or trust income for the year, under local law or terms of the instrument, that is required to be distributed currently and any other amounts of the income distributed in the year. Any balance of the fiduciary adjustment shall be allocated to the estate or trust.

E. In the case of a nonresident beneficiary of an estate or trust, including a nonresident estate or trust that is a beneficiary of another estate or trust, the addition required by section 43-1021, paragraph 1 or the subtraction required by section 43-1022, paragraph 3 shall be limited to that portion of the beneficiary's share of the fiduciary adjustment that is derived from or related to income from sources within this state.

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

Sec. 32. Section 43-1504, Arizona Revised Statutes, is amended to read:

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

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

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

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

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

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

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

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

D. A school tuition organization shall require that student beneficiaries use the educational scholarships or tuition grants on a full-time basis. If a child leaves the school before completing an entire school year, the school shall refund a prorated amount of the educational scholarship or tuition grant to the school tuition organization that issued the scholarship or grant. The school tuition organization shall allocate any refunds it receives under this subsection for educational scholarships or tuition grants.

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

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

Sec. 33. Section 43-1603, Arizona Revised Statutes, is amended to read:

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

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

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

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

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

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

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

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

Notice

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

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

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

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

2. Shall consider the financial need of applicants.

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

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

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

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

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

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

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

Sec. 34. Effect on preexisting tax credits

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

Sec. 35. Effective date

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 and this act, section 42-5009, Arizona Revised Statutes, as amended by Laws 2013, chapter 40, section 3 and this act, section 42-5010, Arizona Revised Statutes, as amended by Laws 2013, chapter 255, section 6 and this act, 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 and this act, and 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 and this act, are effective from and after December 31, 2014.