

State of Arizona  
Senate  
Fifty-third Legislature  
Second Regular Session  
2018

**CHAPTER 104**  
**SENATE BILL 1294**

AN ACT

AMENDING SECTIONS 20-224, 20-224.01, 20-224.03, 20-837, 20-1010, 20-1060 AND 20-1097.07, ARIZONA REVISED STATUTES; AMENDING SECTION 42-2003, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2017, CHAPTER 96, SECTION 1, CHAPTER 258, SECTION 43 AND CHAPTER 340, SECTION 2; AMENDING SECTION 42-2003, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2017, CHAPTER 96, SECTION 1, CHAPTER 139, SECTION 4, CHAPTER 258, SECTION 43 AND CHAPTER 340, SECTION 2; AMENDING SECTIONS 42-3401, 42-3406, 42-3462, 42-5005, 42-5014, 42-5061, 42-5159, 42-6108.01, 42-11132, 42-15010, 43-224 AND 43-309, ARIZONA REVISED STATUTES; REPEALING SECTION 43-568, ARIZONA REVISED STATUTES; AMENDING SECTION 43-901, ARIZONA REVISED STATUTES; REPEALING SECTIONS 43-902, 43-903 AND 43-904, ARIZONA REVISED STATUTES; PROVIDING FOR RENUMBERING; AMENDING SECTION 43-931, ARIZONA REVISED STATUTES; REPEALING SECTIONS 43-932 AND 43-933, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1021, 43-1022, 43-1024, 43-1043, 43-1074, 43-1074.01, 43-1076, 43-1083, 43-1083.03, 43-1121, 43-1122, 43-1123, 43-1124, 43-1127, 43-1130.01, 43-1161, 43-1162, 43-1164.04, 43-1168 AND 43-1603, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 20-224, Arizona Revised Statutes, is amended to  
3 read:

4 20-224. Premium tax; reports

5 A. On or before March 1 of each year, each authorized domestic  
6 insurer, each other insurer and each formerly authorized insurer referred  
7 to in section 20-206, subsection B shall file with the director a report  
8 in a form prescribed by the director showing total direct premium income  
9 including policy membership and other fees and all other considerations  
10 for insurance from all classes of business whether designated as a premium  
11 or otherwise received by it during the preceding calendar year on account  
12 of policies and contracts covering property, subjects or risks located,  
13 resident or to be performed in this state, after deducting from such total  
14 direct premium income applicable cancellations, returned premiums, the  
15 amount of reduction in or refund of premiums allowed to industrial life  
16 policyholders for payment of premiums direct to an office of the insurer  
17 and all policy dividends, refunds, savings coupons and other similar  
18 returns paid or credited to policyholders within this state and not  
19 reapplied as premiums for new, additional or extended insurance. No  
20 deduction shall be made of the cash surrender values of policies or  
21 contracts. Considerations received on annuity contracts, as well as the  
22 unabsorbed portion of any premium deposit, shall not be included in total  
23 direct premium income, and neither shall be subject to tax. The report  
24 shall separately indicate the total direct fire insurance premium income  
25 received from property located in the incorporated cities and towns  
26 certified by the office of the state fire marshal pursuant to section  
27 9-951, subsection B, as procuring the services of a private fire company.

28 B. Coincident with the filing of the tax report, each insurer shall  
29 pay to the director for deposit, pursuant to sections 35-146 and 35-147, a  
30 tax on such net premiums at the following rates:

31 1. For fire insurance:

32 (a) On property located in a city or town certified by the office  
33 of the state fire marshal pursuant to section 9-951, subsection B, as  
34 procuring the services of a private fire company, .66 percent.

35 (b) On all other property, 2.2 percent.

36 2. For disability insurance, 2.0 percent.

37 3. For health care service plans, the rates prescribed under  
38 sections 20-837, 20-1010 and 20-1060.

39 4. For other insurance:

40 (a) For premiums received in calendar year 2016, 1.95 percent.

41 (b) For premiums received in calendar year 2017, 1.90 percent.

42 (c) For premiums received in calendar year 2018, 1.85 percent.

43 (d) For premiums received in calendar year 2019, 1.80 percent.

44 (e) For premiums received in calendar year 2020, 1.75 percent.

1 (f) For premiums received in calendar year 2021 and for each  
2 subsequent calendar year, 1.70 percent.

3 C. Any payments of tax pursuant to subsection F of this section  
4 shall be deducted from the tax payable pursuant to subsection B of this  
5 section. Each insurer shall reflect the cost savings attributable to the  
6 lower tax in fire insurance premiums charged on property located in an  
7 incorporated city or town certified by the office of the state fire  
8 marshal pursuant to section 9-951, subsection B, as procuring the services  
9 of a private fire company. No insurer shall be liable to the state or to  
10 any other person, or shall be subject to regulatory action, relating to  
11 the calculation or submittal of fire insurance premium taxes based in good  
12 faith on the office of the state fire marshal's certification.

13 D. Eighty-five percent of the tax paid under this section by an  
14 insurer on account of premiums received for fire insurance shall be  
15 separately specified in the report and shall be apportioned in the manner  
16 provided by sections 9-951, 9-952 and 9-972, except that all of the tax so  
17 allocated to a fund of a municipality or fire district that has no  
18 volunteer firefighters or pension obligations to volunteer firefighters  
19 shall be appropriated to the account of the municipality or fire district  
20 in the public safety personnel retirement system and all of the tax so  
21 allocated to a fund of a municipality or fire district that has both  
22 full-time paid firefighters and volunteer firefighters or pension  
23 obligations to full-time paid firefighters or volunteer firefighters shall  
24 be appropriated to the account of the municipality or fire district in the  
25 public safety personnel retirement system where it shall be reallocated by  
26 actuarial procedures proportionately to the municipality or fire district  
27 for the account of the full-time paid firefighters and to the municipality  
28 or fire district for the account of the volunteer firefighters. A  
29 municipality or fire district shall provide to the public safety personnel  
30 retirement system all information that the system deems necessary to  
31 perform the reallocation prescribed by this section. A full accounting of  
32 the reallocation shall be forwarded to the municipality or fire district  
33 and its local boards.

34 E. This section shall not apply to title insurance, and such  
35 insurers shall be taxed as provided in section 20-1566.

36 F. Any insurer that paid or is required to pay a tax of fifty  
37 thousand dollars or more on net premiums received during the preceding  
38 calendar year, pursuant to subsection B of this section and sections  
39 20-224.01, 20-837, 20-1010, 20-1060 and 20-1097.07, shall file on or  
40 before the fifteenth day of each month from March through August a report  
41 for that month, on a form prescribed by the director, accompanied by a  
42 payment in an amount equal to fifteen percent of the amount paid or  
43 required to be paid during the preceding calendar year pursuant to  
44 subsection B of this section and sections 20-224.01, 20-837, 20-1010,  
45 20-1060 and 20-1097.07. The payments are due and payable on or before the

1 fifteenth day of each month and shall be made to the director for deposit,  
2 pursuant to sections 35-146 and 35-147.

3 G. Except for the tax paid on fire insurance premiums pursuant to  
4 subsections B and D of this section, an insurer may claim a premium tax  
5 credit if the insurer qualifies for a credit pursuant to section  
6 20-224.03, ~~20-224.04~~, 20-224.06 or 20-224.07.

7 H. On receipt of a properly documented claim, a refund shall be  
8 provided to an insurer from available funds for the excess amount of any  
9 fire insurance premium improperly paid by the insurer. The insurer shall  
10 reflect the refund in the fire insurance premiums charged on the property  
11 that was charged the excessive amount.

12 I. On or before September 30 of each year, the director of  
13 insurance shall report to the directors of the joint legislative budget  
14 committee and the governor's office of strategic planning and budgeting on  
15 the amount of insurance premium tax credits established by sections  
16 20-224.03, ~~20-224.04~~, 20-224.05, 20-224.06 and 20-224.07 that were used  
17 during the previous fiscal year.

18 J. For the purposes of:

19 1. Subsection B of this section, fire insurance is one hundred  
20 percent of fire lines, forty percent of commercial multiple peril  
21 nonliability lines, thirty-five percent of homeowners' multiple peril  
22 lines, twenty-five percent of farm owners' multiple peril lines and twenty  
23 percent of allied lines.

24 2. Section 20-416, fire insurance is eighty-five percent of fire  
25 and allied lines.

26 K. From and after December 31, 2017, the director may require that  
27 reports and payments under this section be submitted electronically. If  
28 the director requires electronic submission, the director shall include on  
29 the department's official website a list of one or more acceptable  
30 third-party services through which an insurer must submit reports and  
31 payments.

32 Sec. 2. Section 20-224.01, Arizona Revised Statutes, is amended to  
33 read:

34 20-224.01. Additional premium tax; civil penalty

35 A. Coincident with the filing of the tax report as required in  
36 section 20-224, each insurer shall pay to the director, for deposit,  
37 pursuant to sections 35-146 and 35-147, a tax of .4312 ~~per cent~~ PERCENT of  
38 such net premiums received from all insurance carried for or on vehicles  
39 as defined in section 28-101, in addition to other applicable taxes.

40 B. The tax of .4312 ~~per cent~~ PERCENT of such net premiums received  
41 by the director and paid by an insurer on account of premiums received for  
42 insurance on certain vehicles as defined in section 28-101 shall be  
43 separately specified in the insurer's report required in section 20-224  
44 and is appropriated to the public safety personnel retirement system and  
45 shall be transferred by the state treasurer to the board of trustees of

1 the public safety personnel retirement system for deposit in the highway  
2 patrol account. If the tax received is greater than the amount necessary  
3 to fund the highway patrol account, beginning in the 1991-1992 fiscal year  
4 the state treasurer shall deposit the excess in the Arizona highway patrol  
5 fund established ~~in~~ BY section 41-1752 in any amount required by  
6 legislative appropriation.

7 C. An insurer shall report and pay the taxes required by this  
8 section in the manner prescribed by section 20-224. An insurer who fails  
9 to pay the tax on or before the prescribed payment dates is subject to a  
10 civil penalty determined pursuant to section 20-225.

11 D. An insurer shall not claim a premium tax credit pursuant to  
12 section 20-224.03 ~~or 20-224.04~~ for the premium taxes paid pursuant to this  
13 section.

14 Sec. 3. Section 20-224.03, Arizona Revised Statutes, is amended to  
15 read:

16 20-224.03. Premium tax credit for new employment

17 A. For taxable years beginning from and after June 30, 2011, a  
18 credit is allowed against the premium tax liability imposed pursuant to  
19 section 20-224, 20-837, 20-1010, 20-1060 or 20-1097.07 for net increases  
20 in full-time employees residing in this state and hired in qualified  
21 employment positions in this state as computed and certified by the  
22 Arizona commerce authority pursuant to section 41-1525. For the purposes  
23 of this section and section 41-1525:

24 1. A tax credit is not allowed against the portion of the tax  
25 payable to the fire fighters' relief and pension fund pursuant to section  
26 20-224 or the portion of the tax payable to the public safety personnel  
27 retirement system pursuant to section 20-224.01.

28 2. A reciprocal insurer and its attorney-in-fact are considered to  
29 be the same entity for the purposes of calculating the tax credit under  
30 this section.

31 B. Subject to subsection F of this section, the amount of the tax  
32 credit is equal to:

33 1. Three thousand dollars for each full-time employee hired in a  
34 qualified employment position in the first year or partial year of  
35 employment. Employees hired in the last ninety days of the taxable year  
36 are excluded for that taxable year and are considered to be new employees  
37 in the following taxable year.

38 2. Three thousand dollars for each full-time employee in a  
39 qualified employment position for the full taxable year in the second year  
40 of continuous employment.

41 3. Three thousand dollars for each full-time employee in a  
42 qualified employment position for the full taxable year in the third year  
43 of continuous employment.

44 C. The capital investment and the new qualified employment  
45 positions requirements of section 41-1525, subsection B must be

1 accomplished within twelve months after the start of the required capital  
2 investment. ~~No~~ A credit may NOT be claimed until both requirements are  
3 met. A business that meets the requirements of section 41-1525,  
4 subsection B for a location is eligible to claim first year credits for  
5 three years beginning with the taxable year in which those requirements  
6 are completed. Employees hired at the location before the beginning of  
7 the taxable year but during the twelve-month period allowed in this  
8 subsection are considered to be new employees for the taxable year in  
9 which all of those requirements are completed. The employees that are  
10 considered to be new employees for the taxable year under this subsection  
11 shall not be included in the average number of full-time employees during  
12 the immediately preceding taxable year until the taxable year in which all  
13 of the requirements of section 41-1525, subsection B are completed. An  
14 employee working at a temporary ~~work site~~ WORKSITE in this state while the  
15 designated location is under construction is considered to be working at  
16 the designated location if all of the following occur:

17 1. The employee is hired after the start of the required investment  
18 at the designated location.

19 2. The employee is hired to work at the designated location after  
20 it is completed.

21 3. The payroll for the employees destined for the designated  
22 location is segregated from other employees.

23 4. The employee is moved to the designated location within thirty  
24 days after its completion.

25 D. To qualify for a credit under this section, the insurer and the  
26 employment positions must meet the requirements prescribed by section  
27 41-1525.

28 E. A credit is allowed for employment in the second and third year  
29 only for qualified employment positions for which a credit was claimed and  
30 allowed in the first year.

31 F. The net increase in the number of qualified employment positions  
32 is the lesser of the total number of filled qualified employment positions  
33 created at the designated location or locations during the taxable year or  
34 the difference between the average number of full-time employees in this  
35 state in the current taxable year and the average number of full-time  
36 employees in this state during the immediately preceding taxable  
37 year. The net increase in the number of qualified employment positions  
38 computed under this subsection may not exceed the difference between the  
39 average number of full-time employees in this state in the current taxable  
40 year and the average number of full-time employees in this state during  
41 the immediately preceding taxable year.

42 ~~G. A taxpayer who claims a credit under section 20-224.04 shall not~~  
43 ~~claim a credit under this section with respect to the same employment~~  
44 ~~positions.~~

1           ~~H.~~ G. If the allowable tax credit exceeds the state premium tax  
2 liability, the amount of the claim not used as an offset against the state  
3 premium tax liability may be carried forward as a tax credit against  
4 subsequent years' state premium tax liability for a period not exceeding  
5 five taxable years.

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

17           ~~J.~~ I. An insurer that claims a tax credit against state premium  
18 tax liability is not required to pay any additional retaliatory tax  
19 imposed pursuant to section 20-230 as a result of claiming that tax  
20 credit.

21           ~~K.~~ J. A failure to timely report and certify to the Arizona  
22 commerce authority the information prescribed by section 41-1525,  
23 subsection E and in the manner prescribed by section 41-1525, subsection F  
24 disqualifies the insurer from the credit under this section. The  
25 department of insurance shall require written evidence of the timely  
26 report to the Arizona commerce authority.

27           ~~L.~~ K. A tax credit under this section is subject to recovery for a  
28 violation described in section 41-1525, subsection H.

29           ~~M.~~ L. The department may adopt rules necessary for the  
30 administration of this section.

31           ~~N.~~ M. For the purposes of subsection B, paragraphs 2 and 3 of this  
32 section, if a full-time employee in the qualified employment position  
33 leaves during the taxable year, the employee may be replaced with another  
34 new full-time employee in the same employment position and the new  
35 employee will be treated as being in the employee's second or third full  
36 year of continuous employment for the purposes of the credit under this  
37 section if:

38           1. The total time the position was vacant from the date the  
39 employment position was originally filled to the end of the current tax  
40 year totals ninety days or less.

41           2. The new employee meets all of the same requirements as the  
42 original employee was required to meet.

1           Sec. 4. Section 20-837, Arizona Revised Statutes, is amended to  
2 read:

3           20-837. Tax exemption; exceptions

4           A. Every corporation doing business pursuant to this article is  
5 declared to be a nonprofit and benevolent institution and to be exempt  
6 from state, county, district, municipal and school taxes, including the  
7 taxes prescribed by this title, and excepting only the fees prescribed by  
8 section 20-167 and taxes on real and tangible personal property located  
9 within this state. Each corporation is subject to a state tax of 2.0 ~~per~~  
10 ~~cent~~ PERCENT on net premiums that are received to effect or maintain the  
11 corporation's subscription contracts, except that the tax shall not apply  
12 with respect to any coverage concerning which the corporation's  
13 relationship is as administrative or fiscal agent for national, state or  
14 municipal government or any political subdivision or body thereof, and  
15 such tax shall not apply with respect to any premiums received from funds  
16 of national, state or municipal government or any political subdivision or  
17 body thereof. ~~Such~~ THE tax shall be determined, filed and reported in the  
18 manner prescribed in section 20-224. The failure by a corporation to pay  
19 the tax on or before the prescribed payment dates results in a civil  
20 penalty determined pursuant to section 20-225.

21           B. A corporation may claim a premium tax credit if the corporation  
22 qualifies for a credit pursuant to section 20-224.03 ~~or 20-224.04~~.

23           Sec. 5. Section 20-1010, Arizona Revised Statutes, is amended to  
24 read:

25           20-1010. Taxes

26           A. On the tax payment dates prescribed in section 20-224, each  
27 prepaid dental plan organization shall pay to the director for deposit,  
28 pursuant to sections 35-146 and 35-147, in a form prescribed by the  
29 director a tax for transacting a prepaid dental plan in the amount of 2.0  
30 ~~per cent~~ PERCENT of prepaid net charges received from members.

31           B. The failure by an organization to pay the tax imposed by this  
32 section results in a civil penalty determined pursuant to section 20-225.

33           C. A prepaid dental plan organization may claim a premium tax  
34 credit if the organization qualifies for a credit pursuant to section  
35 20-224.03 ~~or 20-224.04~~.

36           Sec. 6. Section 20-1060, Arizona Revised Statutes, is amended to  
37 read:

38           20-1060. Taxes; exemption

39           A. Except as provided in subsection C of this section, on the tax  
40 payment dates prescribed in section 20-224, each health care services  
41 organization shall pay to the director for deposit, pursuant to sections  
42 35-146 and 35-147, in a form prescribed by the director a tax for  
43 transacting a health care plan in the amount of 2.0 ~~per cent~~ PERCENT of  
44 net charges received from enrollees.

1 B. The failure by an organization to pay the tax imposed by this  
2 section results in a civil penalty determined pursuant to section 20-225.

3 C. Payments received by health care services organizations from the  
4 UNITED STATES secretary of health and human services pursuant to a  
5 contract issued pursuant to 42 United States Code section 1395mm(g) are  
6 not taxable under this section.

7 D. A health care services organization may claim a premium tax  
8 credit if the organization qualifies for a credit pursuant to section  
9 20-224.03 ~~or 20-224.04.~~

10 Sec. 7. Section 20-1097.07, Arizona Revised Statutes, is amended to  
11 read:

12 20-1097.07. Fees and taxes

13 A. Any prepaid legal insurance corporation licensed pursuant to  
14 this article shall pay those fees prescribed by section 20-167 and those  
15 taxes prescribed by section 20-224.

16 B. A prepaid legal insurance corporation may claim a premium tax  
17 credit if the corporation qualifies for a credit pursuant to section  
18 20-224.03 ~~or 20-224.04.~~

19 Sec. 8. Section 42-2003, Arizona Revised Statutes, as amended by  
20 Laws 2017, chapter 96, section 1, chapter 258, section 43 and chapter 340,  
21 section 2, is amended to read:

22 42-2003. Authorized disclosure of confidential information

23 A. Confidential information relating to:

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

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

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

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

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

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

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

6           B. Confidential information may be disclosed to:

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

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

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

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

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

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

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

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

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

43           (e) An agency, official or organization of an Indian tribal  
44 government with responsibilities comparable to the responsibilities of the

1 agencies, officials or organizations identified in subdivision (a), (b) or  
2 (c) of this paragraph.

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

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

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

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

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

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

15 (a) Regarding income tax or withholding tax.

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

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

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

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

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

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

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

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

35 (d) Certifying computer data centers for tax relief under section  
36 41-1519.

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

38 14. The office of the state fire marshal for use in determining  
39 compliance with and enforcing title 37, chapter 9, article 5.

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

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

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

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

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

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

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

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

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

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

22 E. The department, on the request of any person, shall provide the  
23 names and addresses of bingo licensees as defined in section 5-401, verify  
24 whether or not a person has a privilege license and number, a tobacco  
25 product distributor's license and number or a withholding license and  
26 number or disclose the information to be posted on the department's  
27 website or otherwise publicly accessible pursuant to section 42-1124,  
28 subsection F and section 42-3401.

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

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

43 H. Confidential information relating to transaction privilege tax,  
44 use tax, severance tax, jet fuel excise and use tax and any other tax  
45 collected by the department on behalf of any jurisdiction may be disclosed

1 to any county, city or town tax official if the information relates to a  
2 taxpayer who is or may be taxable by a county, city or town or who may be  
3 subject to audit by the department pursuant to section 42-6002. Any  
4 taxpayer information released by the department to the county, city or  
5 town:

6 1. May only be used for internal purposes, including audits.

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

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

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

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

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

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

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

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

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

44 O. This section does not prohibit the disclosure by the department  
45 of any information or documents submitted to the department by a bingo

1 licensee. Before disclosing the information the department shall obtain  
2 the name and address of the person requesting the information.

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

6 Q. Except as provided in section 42-2002, subsection D, the  
7 department of revenue shall release confidential information as requested  
8 by the department of economic security pursuant to section 42-1122 or  
9 46-291. Information disclosed under this subsection is limited to the  
10 same type of information that the United States internal revenue service  
11 is authorized to disclose under section 6103(l)(6) of the internal revenue  
12 code.

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

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

22 T. The department shall release to the attorney general  
23 confidential information as requested by the attorney general for purposes  
24 of determining compliance with or enforcing any of the following:

25 1. Any public health control law relating to tobacco sales as  
26 provided under title 36, chapter 6, article 14.

27 2. Any law relating to reduced cigarette ignition propensity  
28 standards as provided under title 37, chapter 9, article 5.

29 3. Sections 44-7101 and 44-7111, the master settlement agreement  
30 referred to in those sections and all agreements regarding disputes under  
31 the master settlement agreement.

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

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

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

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

10          V. The department and attorney general may share the information  
11 specified in subsection T of this section with any of the following:

12           1. Federal, state or local agencies located in this state for the  
13 purposes of enforcement of the statutes or agreements specified in  
14 subsection T of this section or for the purposes of enforcement of  
15 corresponding laws of other states.

16           2. Indian tribes located in this state for the purposes of  
17 enforcement of the statutes or agreements specified in subsection T of  
18 this section.

19           3. A court, arbitrator, data clearinghouse or similar entity for  
20 the purpose of assessing compliance with or making calculations required  
21 by the master settlement agreement or agreements regarding disputes under  
22 the master settlement agreement, and with counsel for the parties or  
23 expert witnesses in any such proceeding, if the information otherwise  
24 remains confidential.

25          W. The department may provide the name and address of qualifying  
26 hospitals and qualifying health care organizations, as defined in section  
27 42-5001, to a business classified and reporting transaction privilege tax  
28 under the utilities classification.

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

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

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

43          Y. Notwithstanding any other provision of this section, the  
44 department may not disclose information provided by an online lodging  
45 marketplace, as defined in section 42-5076, without the written consent of

1 the online lodging marketplace, and the information may be disclosed only  
2 pursuant to subsection A, paragraphs 1 through 6, subsection B, paragraphs  
3 1, 2, 7 and 8 and subsections C and D of this section. Such information:

4 1. Is not subject to disclosure pursuant to title 39, relating to  
5 public records.

6 2. May not be disclosed to any agency of this state or of any  
7 county, city, town or other political subdivision of this state.

8 Sec. 9. Section 42-2003, Arizona Revised Statutes, as amended by  
9 Laws 2017, chapter 96, section 1, chapter 139, section 4, chapter 258,  
10 section 43 and chapter 340, section 2, is amended to read:

11 42-2003. Authorized disclosure of confidential information

12 A. Confidential information relating to:

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

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

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

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

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

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

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

38 B. Confidential information may be disclosed to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 (a) Regarding income tax or withholding tax.

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

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

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

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

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

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

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

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

21 (d) Certifying computer data centers for tax relief under section  
22 41-1519.

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

24 14. The office of the state fire marshal for use in determining  
25 compliance with and enforcing title 37, chapter 9, article 5.

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

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

30 17. The department of education for the purpose of verifying income  
31 eligibility to be classified as a low-income student pursuant to section  
32 15-2402, subsection M.

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

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

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

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

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

44 (d) Return information directly relates to a transactional  
45 relationship between a person who is a party to the proceeding and the

1 taxpayer and directly affects the resolution of an issue in the  
2 proceeding.

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

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

9 E. The department, on the request of any person, shall provide the  
10 names and addresses of bingo licensees as defined in section 5-401, verify  
11 whether or not a person has a privilege license and number, a tobacco  
12 product distributor's license and number or a withholding license and  
13 number or disclose the information to be posted on the department's  
14 website or otherwise publicly accessible pursuant to section 42-1124,  
15 subsection F and section 42-3401.

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

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

30 H. Confidential information relating to transaction privilege tax,  
31 use tax, severance tax, jet fuel excise and use tax and any other tax  
32 collected by the department on behalf of any jurisdiction may be disclosed  
33 to any county, city or town tax official if the information relates to a  
34 taxpayer who is or may be taxable by a county, city or town or who may be  
35 subject to audit by the department pursuant to section 42-6002. Any  
36 taxpayer information released by the department to the county, city or  
37 town:

- 38 1. May only be used for internal purposes, including audits.
- 39 2. May not be disclosed to the public in any manner that does not  
40 comply with confidentiality standards established by the department. The  
41 county, city or town shall agree in writing with the department that any  
42 release of confidential information that violates the confidentiality  
43 standards adopted by the department will result in the immediate  
44 suspension of any rights of the county, city or town to receive taxpayer  
45 information under this subsection.

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

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

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

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

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

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

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

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

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

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

38 Q. Except as provided in section 42-2002, subsection D, the  
39 department of revenue shall release confidential information as requested  
40 by the department of economic security pursuant to section 42-1122 or  
41 46-291. Information disclosed under this subsection is limited to the  
42 same type of information that the United States internal revenue service  
43 is authorized to disclose under section 6103(1)(6) of the internal revenue  
44 code.

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

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

10 T. The department shall release to the attorney general  
11 confidential information as requested by the attorney general for purposes  
12 of determining compliance with or enforcing any of the following:

13 1. Any public health control law relating to tobacco sales as  
14 provided under title 36, chapter 6, article 14.

15 2. Any law relating to reduced cigarette ignition propensity  
16 standards as provided under title 37, chapter 9, article 5.

17 3. Sections 44-7101 and 44-7111, the master settlement agreement  
18 referred to in those sections and all agreements regarding disputes under  
19 the master settlement agreement.

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

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

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

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

42 V. The department and attorney general may share the information  
43 specified in subsection T of this section with any of the following:

44 1. Federal, state or local agencies located in this state for the  
45 purposes of enforcement of the statutes or agreements specified in

1 subsection T of this section or for the purposes of enforcement of  
2 corresponding laws of other states.

3 2. Indian tribes located in this state for the purposes of  
4 enforcement of the statutes or agreements specified in subsection T of  
5 this section.

6 3. A court, arbitrator, data clearinghouse or similar entity for  
7 the purpose of assessing compliance with or making calculations required  
8 by the master settlement agreement or agreements regarding disputes under  
9 the master settlement agreement, and with counsel for the parties or  
10 expert witnesses in any such proceeding, if the information otherwise  
11 remains confidential.

12 W. The department may provide the name and address of qualifying  
13 hospitals and qualifying health care organizations, as defined in section  
14 42-5001, to a business classified and reporting transaction privilege tax  
15 under the utilities classification.

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

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

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

30 Y. Notwithstanding any other provision of this section, the  
31 department may not disclose information provided by an online lodging  
32 marketplace, as defined in section 42-5076, without the written consent of  
33 the online lodging marketplace, and the information may be disclosed only  
34 pursuant to subsection A, paragraphs 1 through 6, subsection B, paragraphs  
35 1, 2, 7 and 8 and subsections C and D of this section. Such information:

36 1. Is not subject to disclosure pursuant to title 39, relating to  
37 public records.

38 2. May not be disclosed to any agency of this state or of any  
39 county, city, town or other political subdivision of this state.

1           Sec. 10. Section 42-3401, Arizona Revised Statutes, is amended to  
2 read:

3           42-3401. Tobacco distributor licenses; application;  
4                           conditions; revocations, suspensions and  
5                           cancellations

6           A. Every person acquiring or possessing for the purpose of making  
7 the initial sale or distribution in this state of any tobacco products on  
8 which a tax is imposed by this chapter shall obtain from the department a  
9 license to sell tobacco products. The application for the license shall  
10 be in the form provided by the department and shall be accompanied by a  
11 fee of twenty-five dollars for each place of business listed in the  
12 application. The form shall state that the identity of the applicant will  
13 be posted to the department's website for public inspection. The  
14 application for a license shall include the applicant's name and address,  
15 the applicant's principal place of business, all other places of business  
16 where the applicant's business is conducted for the purpose of making the  
17 initial sale or distribution of tobacco products in this state, including  
18 any location that maintains an inventory of tobacco products, and any  
19 other information required by the department. If the applicant is a firm,  
20 partnership, limited liability company, limited liability partnership or  
21 association, the applicant shall list the name and address of each of the  
22 applicant's members. If the applicant is a corporation, the application  
23 shall list the name and address of the applicant's officers and any person  
24 who directly or indirectly owns an aggregate amount of ten percent or more  
25 of the ownership interest in the corporation. If a licensee is a  
26 corporation, firm, partnership, limited liability company, limited  
27 liability partnership or association, the licensee under this subsection  
28 shall notify the department in writing within thirty days after any change  
29 in membership, legal entity status or ownership of more than fifty percent  
30 of the total ownership interest in a single transaction. If a licensee  
31 changes its business location, the licensee under this subsection shall  
32 notify the department within thirty days after a change in location. If  
33 the licensee is making a change in its business location by adding or  
34 replacing one or more additional places of business that are not currently  
35 listed on its application, the licensee must remit a fee of twenty-five  
36 dollars for each additional place of business.

37           B. For the purposes of subsection A of this section, an applicant  
38 with a controlling interest in more than one business engaged in  
39 activities as a distributor shall apply for a single license encompassing  
40 all such businesses and list each place of business in its application.  
41 For the purposes of this subsection, "controlling interest" means direct  
42 or indirect ownership of at least eighty percent of the voting shares of a  
43 corporation or of the interests in a company, business or person other  
44 than a corporation.

1 C. The department shall issue a license authorizing the applicant  
2 to acquire or possess tobacco products in this state on the condition that  
3 the applicant complies with this chapter and the rules of the department.  
4 The license:

5 1. Shall be nontransferable. A licensee may not transfer its  
6 license to a new owner when selling its business, and any court-appointed  
7 trustee, receiver or other person shall obtain a license in its own name  
8 in cases of liquidation, insolvency or bankruptcy or pursuant to a court  
9 order if the business remains in operation as a distributor of tobacco  
10 products. A licensee shall apply for a new license if it changes its  
11 legal entity status or otherwise changes the legal structure of its  
12 business.

13 2. Shall be valid for one year unless earlier revoked by the  
14 department.

15 3. Shall be displayed in a conspicuous place at the licensee's  
16 place of business. If the licensee operates from more than one place of  
17 business, the licensee must display a copy of its license in a conspicuous  
18 place at each location.

19 D. As a condition of licensure under this section, an applicant  
20 agrees to the following conditions:

21 1. A person may not hold or store any tobacco products, whether  
22 within or outside of this state, for sale or distribution in this state by  
23 or on behalf of a distributor at any place other than a location that has  
24 been disclosed to the department pursuant to subsection A of this section.  
25 This paragraph does not include a person holding or storing tobacco  
26 products by or on behalf of the distributor when the tobacco products are  
27 in transit to a distributor or retailer as part of a lawful sale.

28 2. All tobacco products held or stored, whether within or outside  
29 of this state, for sale or distribution in this state by or on behalf of a  
30 distributor:

31 (a) Shall be accessible to the department during normal business  
32 hours without a judicial warrant or prior written consent of the  
33 distributor.

34 (b) May not be held or stored at a residential location or in a  
35 vehicle.

36 E. A person who is convicted of an offense described in section  
37 42-1127, subsection E is permanently ineligible to hold a license issued  
38 under this section.

39 F. The department may not issue or renew a license to an applicant  
40 and may revoke a license issued under subsection C of this section if any  
41 of the following applies:

42 1. The applicant or licensee owes one thousand dollars or more in  
43 delinquent taxes imposed on tobacco products under this chapter that are  
44 not under protest or subject to a payment agreement.

1           2. The department has revoked any license held by the applicant or  
2 licensee within the previous two years.

3           3. The applicant or licensee has been convicted of a crime that  
4 relates to stolen or counterfeit cigarettes.

5           4. The applicant or licensee has imported cigarettes into the  
6 United States for sale or distribution in violation of 19 United States  
7 Code section 1681a.

8           5. The applicant or licensee has imported cigarettes into the  
9 United States for sale or distribution without fully complying with the  
10 federal cigarette labeling and advertising act (P.L. 89-92; 79 Stat. 282;  
11 15 United States Code section 1331).

12           6. The applicant or licensee is in violation of section 13-3711 or  
13 section 36-798.06, subsection A.

14           7. Pursuant to section 44-7111, section 6(a), the applicant or  
15 licensee is in violation of section 44-7111, section 3(c).

16           8. The civil rights of the applicant or licensee have been  
17 suspended under section 13-904. An applicant **OR LICENSEE** whose civil  
18 rights have been suspended will be ineligible to hold a license for a  
19 period of five years following the restoration of the applicant's or  
20 licensee's civil rights.

21           G. In addition to any other civil or criminal penalty and except as  
22 otherwise provided in this section, the department may **DENY THE ISSUANCE**  
23 **OR RENEWAL OF OR** suspend or revoke a license issued under subsection C of  
24 this section if the person violates any requirement under this title more  
25 than two times within a three-year period or fails to otherwise maintain  
26 the conditions of licensure in this section.

27           H. The department shall publish on its website the names of each  
28 person who is issued a license under subsection C of this section,  
29 including any trade names or business names used by the licensee. The  
30 department shall update the published names at least once each month.

31           I. A person may not apply for or hold a distributor's license if  
32 that person does not engage in the activities described in subsection A of  
33 this section. In addition to any other applicable penalty, the department  
34 may:

35           ~~1. Revoke the license of any licensee that fails to file a return~~  
36 ~~or report required under this chapter for twelve consecutive months.~~

37           ~~2.~~ cancel the license of any licensee that fails to incur any tax  
38 liability under this chapter for twelve consecutive months.

39           J. Any suspension, revocation, cancellation or denial of a license  
40 issued under this section by the department must comply with section  
41 41-1092.11, subsection B.

42           K. Notwithstanding any other law, for the purposes of subsection F,  
43 paragraphs 1 and 2 of this section, section 42-1127, subsection C and  
44 section 42-3461, subsection B, if a distributor has listed in its  
45 application more than one place of business, any suspension, revocation,

1 cancellation, DENIAL or nonrenewal of the distributor's license shall  
2 apply only with effect to remove the place of business or business  
3 location at which the activity occurred from the distributor's  
4 license. If such a removal occurs, the distributor shall be subject to  
5 restrictions that the department prescribes by rule.

6 Sec. 11. Section 42-3406, Arizona Revised Statutes, is amended to  
7 read:

8 42-3406. Refunds and rebates of tobacco taxes; supporting  
9 documentation; distributor's burden of proof

10 A. Except as otherwise provided under subsection B of this section  
11 or by the department for a refund or redemption ~~issued~~ under section  
12 42-3008 or 42-3460, a distributor requesting any refund or rebate of taxes  
13 paid on tobacco products pursuant to article 2, 6, 7 or 9 of this chapter  
14 shall establish entitlement to the refund or rebate by obtaining a report  
15 executed by the retailer that purchased the tobacco products on which the  
16 distributor paid taxes, indicating the name and address of the retailer  
17 and the quantities of tobacco products sold, separately identified by the  
18 tax category of tobacco product and the necessary facts to establish the  
19 appropriate amount of refund or rebate. The report is subject to the  
20 following conditions:

21 1. The report shall be provided in the form and manner prescribed  
22 by the department. Under such rules as it may prescribe, the department  
23 may identify transactions for which a distributor may not rely solely on  
24 the information in the retailer's report but must instead obtain  
25 additional information as required by the rules in order to be entitled to  
26 the refund or rebate.

27 2. The burden of proof for the refund or rebate is on the  
28 distributor, but if the distributor complies in all other respects with  
29 this section, the department may require the retailer that caused the  
30 execution of the report to establish the accuracy and completeness of the  
31 information required to be contained in the report that would entitle the  
32 distributor to the refund or rebate. If the retailer cannot establish the  
33 accuracy and completeness of the information, the retailer is liable in an  
34 amount equal to any tax, penalty and interest that the distributor would  
35 have been liable for under this chapter if the distributor had not  
36 otherwise complied with this section. Payment of the amount under this  
37 section by the retailer exempts the distributor from liability for the  
38 underlying tax, penalty and interest. All amounts paid by a retailer  
39 under this paragraph shall be treated as tax revenues collected from the  
40 distributor in order to designate the distribution base for the purposes  
41 of this chapter.

42 B. In its discretion and in circumstances ~~where~~ IN WHICH a retailer  
43 is uncooperative, NONRESPONSIVE or no longer in business, the department  
44 may accept proof other than a report described in subsection A of this  
45 section if the distributor shows, to the satisfaction of the department,

1 that it exercised ordinary business care and prudence but was unable to  
2 furnish a report executed by the retailer. Acceptable forms of proof  
3 presented by the distributor pursuant to this subsection must consist of  
4 books, records or papers maintained by the distributor or retailer in the  
5 regular course of business.

6 Sec. 12. Section 42-3462, Arizona Revised Statutes, is amended to  
7 read:

8 42-3462. Cigarette and roll-your-own tobacco; filing  
9 requirements; definition

10 A. Each distributor shall file a return in a form prescribed by the  
11 department for each place of business on or before the twentieth day of  
12 the month next succeeding the month for which the return is filed. The  
13 return shall contain all of the following:

14 1. The brand names and quantities of each brand of cigarettes and  
15 roll-your-own tobacco in possession at the beginning and end of the  
16 reporting period.

17 2. The brand names and quantities of each brand of cigarettes and  
18 roll-your-own tobacco received during the reporting period and the name  
19 and address of each person from whom each product was received.

20 3. The brand names and quantities of each brand of cigarettes and  
21 roll-your-own tobacco distributed or shipped into this state or between  
22 locations in this state during the reporting period, except for sales  
23 directly to consumers, and the name and address of each person to whom  
24 each product was distributed or shipped, with reference to the dates of  
25 distribution or shipment and corresponding invoice numbers from the  
26 invoices documenting the distribution or shipments.

27 4. The brand names and quantities of each brand of cigarettes and  
28 roll-your-own tobacco distributed or shipped to any destination wherever  
29 located, including the quantities reported under paragraph 3 of this  
30 subsection during the reporting period, except for sales directly to  
31 consumers, and the name and address of each person to whom each product  
32 was distributed or shipped, with reference to the dates of distribution or  
33 shipment and corresponding invoice numbers from the invoices documenting  
34 the distribution or shipments.

35 5. The brand names and quantities of each brand of cigarettes and  
36 roll-your-own tobacco sold to consumers that are itemized to show sales to  
37 consumers in this state and sale to consumers outside of this state.

38 6. Copies of the customs certificates with respect to such  
39 cigarettes and roll-your-own tobacco required to be submitted by 19 United  
40 States Code section 1681a(c).

41 7. The name and address of each nonparticipating manufacturer of  
42 each brand of cigarettes and roll-your-own tobacco identified by the  
43 distributor in the return.

44 8. The number of individual cigarettes and ounces of roll-your-own  
45 tobacco of each brand of each nonparticipating manufacturer sold in this

1 state by the distributor during the preceding month, separately stating  
2 each of the following:

3 (a) The number of cigarette packages sold and the number of  
4 individual cigarettes in each package.

5 (b) The number of roll-your-own tobacco containers sold and the  
6 number of ounces of roll-your-own tobacco in each container.

7 9. The amount of luxury taxes paid or to be paid on the cigarettes  
8 and roll-your-own tobacco prescribed in paragraph 8 of this subsection,  
9 separately stating each of the following:

10 (a) The amount of luxury taxes paid by purchasing and affixing tax  
11 stamps to cigarette packages.

12 (b) The amount of luxury taxes to be paid for roll-your-own tobacco  
13 containers.

14 (c) Any other amount of excise taxes to be paid on the cigarettes.

15 10. The number of individual cigarettes and ounces of roll-your-own  
16 tobacco of each brand of each nonparticipating manufacturer received by  
17 the distributor, separately stating each of the following:

18 (a) The number of cigarette packages received and the number of  
19 individual cigarettes in each package.

20 (b) The number of roll-your-own tobacco containers received and the  
21 number of ounces of roll-your-own tobacco in each container.

22 11. The number of individual cigarettes and ounces of roll-your-own  
23 tobacco of each brand of each nonparticipating manufacturer that the  
24 distributor exported from this state without payment of Arizona luxury  
25 taxes, separately stating each of the following:

26 (a) The number of cigarette packages exported and the number of  
27 individual cigarettes in each package.

28 (b) The number of roll-your-own tobacco containers exported and the  
29 number of ounces of roll-your-own tobacco in each container.

30 12. The number of individual cigarettes and ounces of roll-your-own  
31 tobacco of each brand of each nonparticipating manufacturer for which the  
32 distributor obtained a refund under section 42-3008, separately stating  
33 each of the following:

34 (a) The number of cigarette packages for which the distributor  
35 obtained a refund and the number of individual cigarettes in each package.

36 (b) The number of roll-your-own tobacco containers for which the  
37 distributor obtained a refund and the number of ounces of roll-your-own  
38 tobacco in each container.

39 13. The invoice, in the form and manner prescribed by the  
40 department, for the following transactions:

41 (a) The distributor's purchase or acquisition of any  
42 nonparticipating manufacturer's cigarettes received or sold by the tobacco  
43 distributor in this state.

44 (b) The distributor's export, if any, of any nonparticipating  
45 manufacturer's cigarettes from this state.

1           B. ~~ANY~~ ANY person who sells, ships or transfers cigarettes and  
2 roll-your-own tobacco ~~for sale, shipment or transfer~~ into or within this  
3 state shall file a monthly report with the department on the tenth day of  
4 each month AFTER THE SALE, SHIPMENT OR TRANSFER in the form and manner  
5 prescribed by section 42-3053, subsection C. The report shall contain  
6 information regarding each shipment of cigarettes and roll-your-own  
7 tobacco into OR WITHIN this state during the previous calendar month,  
8 including the date of shipment, the name and address of the person to whom  
9 the shipment was made and the name, address and telephone number of the  
10 person OR SERVICE delivering the shipment to the recipient on behalf of  
11 the seller. The report shall also include the brand names and quantities  
12 of cigarettes and roll-your-own tobacco contained in each shipment, with  
13 invoices or references to invoice number documenting each shipment.

14           C. Distributor reports that are submitted under subsection A of  
15 this section shall be itemized to disclose the quantity of reported  
16 cigarettes bearing tax stamps of this state, tax exempt stamps of this  
17 state, stamps of another state and unstamped cigarettes. The distributor  
18 reports shall also include, if applicable, the following:

19           1. The quantity of Arizona tax and tax exempt stamps that were not  
20 affixed to cigarettes.

21           2. The quantity of Arizona tax and tax exempt stamps that the  
22 distributor possessed at the beginning and end of the reporting period.

23           3. The quantity of each type of Arizona stamp received during the  
24 reporting period.

25           4. The quantity of each type of Arizona stamp applied during the  
26 reporting period.

27           D. The department may adopt rules requiring additional information  
28 in the monthly reports as necessary for the purposes of enforcing this  
29 article.

30           E. For the purposes of this section, "manufacturer" has the same  
31 meaning prescribed in section 42-3451.

32           Sec. 13. Section 42-5005, Arizona Revised Statutes, is amended to  
33 read:

34           42-5005. Transaction privilege tax and municipal privilege  
35 tax licenses; fees; renewal; revocation;  
36 violation; classification

37           A. Every person who receives gross proceeds of sales or gross  
38 income on which a transaction privilege tax is imposed by this article and  
39 who desires to engage or continue in business shall apply to the  
40 department for an annual transaction privilege tax license accompanied by  
41 a fee of twelve dollars. A person shall not engage or continue in  
42 business until the person has obtained a transaction privilege tax  
43 license.

44           B. A person desiring to engage or continue in business within a  
45 city or town that imposes a municipal privilege tax shall apply to the

1 department of revenue for an annual municipal privilege tax license  
2 accompanied by a fee of up to fifty dollars, as established by ordinance  
3 of the city or town. The person shall submit the fee with each new  
4 license application. The person may not engage or continue in business  
5 until the person has obtained a municipal privilege tax license. The  
6 department must collect, hold, pay and manage the fees in trust for the  
7 city or town and may not use the monies for any other purposes.

8 C. A transaction privilege tax license is valid only for the  
9 calendar year in which it is issued, but it may be renewed for the  
10 following calendar year. There is no fee for the renewal of the  
11 transaction privilege tax license. The transaction privilege tax license  
12 must be renewed at the same time and in the manner as the municipal  
13 privilege tax license renewal.

14 D. A municipal privilege tax license is valid only for the calendar  
15 year in which it is issued, but it may be renewed for the following  
16 calendar year by the payment of a license renewal fee of up to fifty  
17 dollars. The renewal fee is due and payable on January 1 and is  
18 considered delinquent if not received on or before the last business day  
19 of January. The department must collect, hold, pay and manage the fees in  
20 trust for the city or town and may not use the monies for any other  
21 purposes.

22 E. A licensee that remains in business after the municipal  
23 privilege tax license has expired is subject to the payment of the license  
24 renewal fee and the civil penalty prescribed in section 42-1125,  
25 subsection R.

26 F. If the applicant is not in arrears in payment of any tax imposed  
27 by this article, the department shall issue a license authorizing the  
28 applicant to engage and continue in business on the condition that the  
29 applicant complies with this article. The license number shall be  
30 continuous.

31 G. The transaction privilege tax license and the municipal  
32 privilege tax license are not transferable on a complete change of  
33 ownership or change of location of the business. For the purposes of this  
34 subsection:

35 1. "Location" means the business address appearing in the  
36 application for the license and on the transaction privilege tax or  
37 municipal privilege tax license.

38 2. "Ownership" means any right, title or interest in the business.

39 3. "Transferable" means the ability to convey or change the right  
40 or privilege to engage or continue in business by virtue of the issuance  
41 of the transaction privilege tax or municipal privilege tax license.

42 H. When the ownership or location of a business on which a  
43 transaction privilege tax or municipal privilege tax is imposed has been  
44 changed within the meaning of subsection G of this section, the licensee  
45 shall surrender the license to the department. The license shall be

1 reissued to the new owners or for the new location on application by the  
2 taxpayer and payment of the twelve-dollar fee for a transaction privilege  
3 tax license and a fee of up to fifty dollars per jurisdiction for a  
4 municipal privilege tax license. The department must collect, hold, pay  
5 and manage the fees in trust for the city or town and may not use the  
6 monies for any other purposes.

7 I. A person who is engaged in or conducting a business in two or  
8 more locations or under two or more business names shall procure a  
9 transaction privilege tax license for each location or business name  
10 regardless of whether all locations or business names are reported on a  
11 consolidated return under a single transaction privilege tax license  
12 number. This requirement shall not be construed as conflicting with  
13 section 42-5020.

14 J. A person who is engaged in or conducting a business in two or  
15 more locations or under two or more business names shall procure a  
16 municipal privilege tax license for each location or business name  
17 regardless of whether all locations or business names are reported on a  
18 consolidated return.

19 K. A person who is engaged in or conducting business at two or more  
20 locations or under two or more business names and who files a consolidated  
21 return under a single transaction privilege tax license number as provided  
22 by section 42-5020 is required to pay only a single municipal privilege  
23 tax license renewal fee for each local jurisdiction pursuant to subsection  
24 D of this section. A person who is engaged in or conducting business at  
25 two or more locations or under two or more business names and who does not  
26 file a consolidated return under a single license number is required to  
27 pay a license renewal fee for each location or license in a local  
28 jurisdiction.

29 L. For the purposes of this chapter and chapter 6 of this title, an  
30 online lodging marketplace, as defined in section 42-5076, may register  
31 with the department for a license for the payment of taxes levied by this  
32 state and one or more counties, cities, towns or special taxing districts,  
33 at the election of the online lodging marketplace, for taxes due from an  
34 online lodging operator on any online lodging transaction facilitated by  
35 the online lodging marketplace, subject to sections 42-5076 and 42-6009.

36 M. For the purposes of this chapter and chapter 6 of this title, a  
37 person who is licensed pursuant to title 32, chapter 20 and who files an  
38 electronic consolidated tax return for individual real properties under  
39 management on behalf of the property owners may be licensed with the  
40 department for the payment of taxes levied by this state and by any  
41 county, city or town with respect to those properties. **THERE IS NO FEE FOR  
42 A LICENSE ISSUED PURSUANT TO THIS SUBSECTION.**

43 N. If a person violates this article or any rule adopted under this  
44 article, the department upon hearing may revoke any transaction privilege  
45 tax or municipal privilege tax license issued to the person. The

1 department shall provide ten days' written notice of the hearing, stating  
2 the time and place and requiring the person to appear and show cause why  
3 the license or licenses should not be revoked. The department shall  
4 provide written notice to the person of the revocation of the license.  
5 The notices may be served personally or by mail pursuant to section  
6 42-5037. After revocation, the department shall not issue a new license  
7 to the person unless the person presents evidence satisfactory to the  
8 department that the person will comply with this article and with the  
9 rules adopted under this article. The department may prescribe the terms  
10 under which a revoked license may be reissued.

11 O. The department may revoke any transaction privilege tax or  
12 municipal privilege tax license issued to any person who fails for  
13 thirteen consecutive months to make and file a return required by this  
14 article on or before the due date or the due date as extended by the  
15 department unless the failure is due to a reasonable cause and not due to  
16 wilful neglect.

17 P. A person who violates any provision of this section is guilty of  
18 a class 3 misdemeanor.

19 Sec. 14. Section 42-5014, Arizona Revised Statutes, is amended to  
20 read:

21 42-5014. Return and payment of tax; estimated tax;  
22 extensions; abatements

23 A. Except as provided in subsection B, C, D, E or F of this  
24 section, the taxes levied under this article:

25 1. Are due and payable monthly in the form required by section  
26 42-5018 for the amount of the tax, to the department, on or before the  
27 twentieth day of the month next succeeding the month in which the tax  
28 accrues.

29 2. Are delinquent as follows:

30 (a) For taxpayers that are required or elect to file and pay  
31 electronically in any month, if not received by the department on or  
32 before the last business day of the month.

33 (b) For all other taxpayers, if not received by the department on  
34 or before the business day preceding the last business day of the month.

35 B. The department, for any taxpayer whose estimated annual  
36 liability for taxes imposed or administered by this article or chapter 6  
37 of this title is between two thousand dollars and eight thousand dollars,  
38 shall authorize such taxpayer to pay such taxes on a quarterly basis. The  
39 department, for any taxpayer whose estimated annual liability for taxes  
40 imposed by this article is less than two thousand dollars, shall authorize  
41 such taxpayer to pay such taxes on an annual basis. For the purposes of  
42 this subsection, the taxes due under this article:

43 1. For taxpayers that are authorized to pay on a quarterly basis,  
44 are due and payable monthly in the form required by section 42-5018 for

1 the amount of the tax, to the department, on or before the twentieth day  
2 of the month next succeeding the quarter in which the tax accrues.

3 2. For taxpayers that are authorized to pay on an annual basis, are  
4 due and payable monthly in the form required by section 42-5018 for the  
5 amount of the tax, to the department, on or before the twentieth day of  
6 January next succeeding the year in which the tax accrues.

7 3. Are delinquent as follows:

8 (a) For taxpayers that are required or elect to file and pay  
9 electronically in any quarter, if not received by the department on or  
10 before the last business day of the month.

11 (b) For all other taxpayers that are required to file and pay  
12 quarterly, if not received by the department on or before the business day  
13 preceding the last business day of the month.

14 (c) For taxpayers that are required or elect to file and pay  
15 electronically on an annual basis, if not received by the department on or  
16 before the last business day of January.

17 (d) For all other taxpayers that are required to file and pay  
18 annually, if not received by the department on or before the business day  
19 preceding the last business day of January.

20 C. The department may require a taxpayer whose business is of a  
21 transient character to file the return and remit the taxes imposed by this  
22 article on a daily, a weekly or a transaction by transaction basis, and  
23 those returns and payments are due and payable on the date fixed by the  
24 department without a grace period otherwise allowed by this section. For  
25 the purposes of this subsection, "business of a transient character" means  
26 sales activity by a taxpayer not regularly engaged in selling within the  
27 state conducted from vehicles, portable stands, rented spaces, structures  
28 or booths, or concessions at fairs, carnivals, circuses, festivals or  
29 similar activities for not more than thirty consecutive days.

30 D. If the business entity under which a taxpayer reports and pays  
31 income tax under title 43 has an annual total tax liability under this  
32 article, article 6 of this chapter and chapter 6, article 3 of this title  
33 of one million dollars or more, based on the actual tax liability in the  
34 preceding calendar year, regardless of the number of offices at which the  
35 taxes imposed by this article, article 6 of this chapter or chapter 6,  
36 article 3 of this title are collected, or if the taxpayer can reasonably  
37 anticipate such liability in the current year, the taxpayer shall report  
38 on a form prescribed by the department and pay an estimated tax payment  
39 each June. Any other taxpayer may voluntarily elect to pay the estimated  
40 tax payment pursuant to this subsection. The payment shall be made on or  
41 before June 20 and is delinquent if not received by the department on or  
42 before the business day preceding the last business day of June for those  
43 taxpayers electing to file by mail, or delinquent if not received by the  
44 department on the business day preceding the last business day of June for  
45 those taxpayers electing to file in person. The estimated tax paid shall

1 be credited against the taxpayer's tax liability under this article,  
2 article 6 of this chapter and chapter 6, article 3 of this title for the  
3 month of June for the current calendar year. The estimated tax payment  
4 shall equal either:

5 1. One-half of the actual tax liability under this article plus  
6 one-half of any tax liability under article 6 of this chapter and chapter  
7 6, article 3 of this title for May of the current calendar year.

8 2. The actual tax liability under this article plus any tax  
9 liability under article 6 of this chapter and chapter 6, article 3 of this  
10 title for the first fifteen days of June of the current calendar year.

11 E. An online lodging marketplace, as defined in section 42-5076,  
12 that is registered with the department pursuant to section 42-5005,  
13 subsection L:

14 1. Shall remit to the department the applicable taxes payable  
15 pursuant to section 42-5076 and chapter 6 of this title with respect to  
16 each online lodging transaction, as defined in section 42-5076,  
17 facilitated by the online lodging marketplace.

18 2. Shall report the taxes monthly and remit the aggregate total  
19 amounts for each of the respective taxing jurisdictions.

20 3. Shall not be required to list or otherwise identify any  
21 individual online lodging operator, as defined in section 42-5076, on any  
22 return or any attachment to a return.

23 F. A person who is licensed pursuant to title 32, chapter 20 and  
24 who is licensed with the department pursuant to section 42-5005,  
25 subsection M shall:

26 1. File a consolidated return monthly with respect to all managed  
27 properties for which the licensee files an electronic consolidated tax  
28 return pursuant to section 42-6013.

29 2. Remit to the department the aggregate total amount of the  
30 applicable taxes payable pursuant to this chapter and chapter 6 of this  
31 title for all of the respective taxing jurisdictions with respect to the  
32 managed properties.

33 G. The taxpayer shall prepare a return showing the amount of the  
34 tax for which the taxpayer is liable for the preceding month, and shall  
35 mail or deliver the return to the department in the same manner and time  
36 as prescribed for the payment of taxes in subsection A of this section.  
37 If the taxpayer fails to file the return in the manner and time as  
38 prescribed for the payment of taxes in subsection A of this section, the  
39 amount of the tax required to be shown on the return is subject to the  
40 penalty imposed pursuant to section 42-1125, subsection ~~A~~ X, without any  
41 reduction for taxes paid on or before the due date of the return. The  
42 return shall be verified by the oath of the taxpayer or an authorized  
43 agent or as prescribed by the department pursuant to section 42-1105,  
44 subsection B.

1           H. Any person who is taxable under this article and who makes cash  
2 and credit sales shall report such cash and credit sales separately and on  
3 making application may obtain from the department an extension of time for  
4 payment of taxes due on the credit sales. The extension shall be granted  
5 by the department under such rules as the department prescribes. When the  
6 extension is granted, the taxpayer shall thereafter include in each  
7 monthly report all collections made on such credit sales during the month  
8 next preceding and shall pay the taxes due at the time of filing such  
9 report.

10           I. The returns required under this article shall be made on forms  
11 prescribed by the department and shall capture data with sufficient  
12 specificity to meet the needs of all taxing jurisdictions.

13           J. Any person who is engaged in or conducting business in two or  
14 more locations or under two or more business names shall file the return  
15 required under this article using an electronic filing program established  
16 by the department.

17           K. For taxable periods beginning from and after December 31, 2017,  
18 any taxpayer with an annual total tax liability under this chapter and  
19 chapter 6 of this title of twenty thousand dollars or more, based on the  
20 actual tax liability in the preceding calendar year, regardless of the  
21 number of offices at which the taxes imposed by this chapter or chapter 6  
22 of this title are collected, or a taxpayer that can reasonably anticipate  
23 that liability in the current year, shall file the return required under  
24 this article using an electronic filing program established by the  
25 department.

26           L. For taxable periods beginning from and after December 31, 2018,  
27 any taxpayer with an annual total tax liability under this chapter and  
28 chapter 6 of this title of ten thousand dollars or more, based on the  
29 actual tax liability in the preceding calendar year, regardless of the  
30 number of offices at which the taxes imposed by this chapter or chapter 6  
31 of this title are collected, or a taxpayer that can reasonably anticipate  
32 that liability in the current year, shall file the return required under  
33 this article using an electronic filing program established by the  
34 department.

35           M. For taxable periods beginning from and after December 31, 2019,  
36 any taxpayer with an annual total tax liability under this chapter and  
37 chapter 6 of this title of five thousand dollars or more, based on the  
38 actual tax liability in the preceding calendar year, regardless of the  
39 number of offices at which the taxes imposed by this chapter or chapter 6  
40 of this title are collected, or a taxpayer that can reasonably anticipate  
41 that liability in the current year, shall file the return required under  
42 this article using an electronic filing program established by the  
43 department.

44           N. For taxable periods beginning from and after December 31, 2020,  
45 any taxpayer with an annual total tax liability under this chapter and

1 chapter 6 of this title of five hundred dollars or more, based on the  
2 actual tax liability in the preceding calendar year, regardless of the  
3 number of offices at which the taxes imposed by this chapter or chapter 6  
4 of this title are collected, or a taxpayer that can reasonably anticipate  
5 that liability in the current year, shall file the return required under  
6 this article using an electronic filing program established by the  
7 department.

8 O. Any taxpayer that is required to report and pay using an  
9 electronic filing program established by the department may apply to the  
10 director, on a form prescribed by the department, for an annual waiver  
11 from the electronic filing requirement. The director may grant a waiver,  
12 which may be renewed, if any of the following applies:

- 13 1. The taxpayer has no computer.
- 14 2. The taxpayer has no internet access.
- 15 3. Any other circumstance considered to be worthy by the director.

16 P. A waiver is not required if the return cannot be electronically  
17 filed for reasons beyond the taxpayer's control, including situations in  
18 which the taxpayer was instructed by either the internal revenue service  
19 or the department of revenue to file by paper.

20 Q. The department, for good cause, may extend the time for making  
21 any return required by this article and may grant such reasonable  
22 additional time within which to make the return as it deems proper, but  
23 the time for filing the return shall not be extended beyond the first day  
24 of the third month next succeeding the regular due date of the return.

25 R. The department, with the approval of the attorney general, may  
26 abate small tax balances if the administration costs exceed the amount of  
27 tax due.

28 S. For the purposes of subsection D of this section, "taxpayer"  
29 means the business entity under which the business reports and pays state  
30 income taxes regardless of the number of offices at which the taxes  
31 imposed by this article, article 6 of this chapter or chapter 6, article 3  
32 of this title are collected.

33 Sec. 15. Section 42-5061, Arizona Revised Statutes, is amended to  
34 read:

35 42-5061. Retail classification: definitions

36 A. The retail classification is comprised of the business of  
37 selling tangible personal property at retail. The tax base for the retail  
38 classification is the gross proceeds of sales or gross income derived from  
39 the business. The tax imposed on the retail classification does not apply  
40 to the gross proceeds of sales or gross income from:

41 1. Professional or personal service occupations or businesses that  
42 involve sales or transfers of tangible personal property only as  
43 inconsequential elements.

44 2. Services rendered in addition to selling tangible personal  
45 property at retail.

- 1           3. Sales of warranty or service contracts. The storage, use or  
2 consumption of tangible personal property provided under the conditions of  
3 such contracts is subject to tax under section 42-5156.
- 4           4. Sales of tangible personal property by any nonprofit  
5 organization organized and operated exclusively for charitable purposes  
6 and recognized by the United States internal revenue service under section  
7 501(c)(3) of the internal revenue code.
- 8           5. Sales to persons engaged in business classified under the  
9 restaurant classification of articles used by human beings for food, drink  
10 or condiment, whether simple, mixed or compounded.
- 11           6. Business activity that is properly included in any other  
12 business classification that is taxable under this article.
- 13           7. The sale of stocks and bonds.
- 14           8. Drugs and medical oxygen, including delivery hose, mask or tent,  
15 regulator and tank, on the prescription of a member of the medical, dental  
16 or veterinarian profession who is licensed by law to administer such  
17 substances.
- 18           9. Prosthetic appliances as defined in section 23-501 and as  
19 prescribed or recommended by a health professional who is licensed  
20 pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.
- 21           10. Insulin, insulin syringes and glucose test strips.
- 22           11. Prescription eyeglasses or contact lenses.
- 23           12. Hearing aids as defined in section 36-1901.
- 24           13. Durable medical equipment that has a centers for medicare and  
25 medicaid services common procedure code, is designated reimbursable by  
26 medicare, is prescribed by a person who is licensed under title 32,  
27 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is  
28 primarily and customarily used to serve a medical purpose, is generally  
29 not useful to a person in the absence of illness or injury and is  
30 appropriate for use in the home.
- 31           14. Sales of motor vehicles to nonresidents of this state for use  
32 outside this state if the motor vehicle dealer ships or delivers the motor  
33 vehicle to a destination out of this state.
- 34           15. Food, as provided in and subject to the conditions of article 3  
35 of this chapter and section 42-5074.
- 36           16. Items purchased with United States department of agriculture  
37 ~~food stamp~~ coupons issued under the ~~food stamp act of 1977 (P.L. 95-113;~~  
38 ~~91 Stat. 958)~~ SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM PURSUANT TO THE  
39 FOOD AND NUTRITION ACT OF 2008 (P.L. 88-525; 78 STAT 703; 7 UNITED STATES  
40 CODE SECTIONS 2011 THROUGH 2036b) BY THE UNITED STATES DEPARTMENT OF  
41 AGRICULTURE FOOD AND NUTRITION SERVICE or food instruments issued under  
42 section 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L.  
43 99-661, section 4302; P.L. 111-296; 42 United States Code section 1786).
- 44           17. Textbooks by any bookstore that are required by any state  
45 university or community college.

1           18. Food and drink to a person that is engaged in a business that  
2 is classified under the restaurant classification and that provides such  
3 food and drink without monetary charge to its employees for their own  
4 consumption on the premises during the employees' hours of employment.

5           19. Articles of food, drink or condiment and accessory tangible  
6 personal property to a school district or charter school if such articles  
7 and accessory tangible personal property are to be prepared and served to  
8 persons for consumption on the premises of a public school within the  
9 district or on the premises of the charter school during school hours.

10           20. Lottery tickets or shares pursuant to title 5, chapter 5.1,  
11 article 1.

12           21. The sale of cash equivalents and the sale of precious metal  
13 bullion and monetized bullion to the ultimate consumer, but the sale of  
14 coins or other forms of money for manufacture into jewelry or works of art  
15 is subject to the tax and the gross proceeds of sales or gross income  
16 derived from the redemption of any cash equivalent by the holder as a  
17 means of payment for goods or services that are taxable under this article  
18 is subject to the tax. For the purposes of this paragraph:

19           (a) "Cash equivalents" means items or intangibles, whether or not  
20 negotiable, that are sold to one or more persons, through which a value  
21 denominated in money is purchased in advance and may be redeemed in full  
22 or in part for tangible personal property, intangibles or services. Cash  
23 equivalents include gift cards, stored value cards, gift certificates,  
24 vouchers, traveler's checks, money orders or other instruments, orders or  
25 electronic mechanisms, such as an electronic code, personal identification  
26 number or digital payment mechanism, or any other prepaid intangible right  
27 to acquire tangible personal property, intangibles or services in the  
28 future, whether from the seller of the cash equivalent or from another  
29 person. Cash equivalents do not include either of the following:

30           (i) Items or intangibles that are sold to one or more persons,  
31 through which a value is not denominated in money.

32           (ii) Prepaid calling cards or prepaid authorization numbers for  
33 telecommunications services made taxable by subsection P of this section.

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

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

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

1 section 28-8344 and sales of jet fuel that are subject to the tax imposed  
2 under article 8 of this chapter.

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

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

10 25. Tangible personal property sold to:

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

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

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

21 (d) A qualifying community health center as defined in section  
22 42-5001.

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

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

34 (g) A qualifying health sciences educational institution as defined  
35 in section 42-5001.

36 (h) Any person representing or working on behalf of another person  
37 described in subdivisions (a) through (g) of this paragraph if the  
38 tangible personal property is incorporated or fabricated into a project  
39 described in section 42-5075, subsection 0.

40 26. Magazines or other periodicals or other publications by this  
41 state to encourage tourist travel.

42 27. Tangible personal property sold to:

43 (a) A person that is subject to tax under this article by reason of  
44 being engaged in business classified under section 42-5075 or to a  
45 subcontractor working under the control of a person engaged in business

1 classified under section 42-5075, if the property so sold is any of the  
2 following:

3 (i) Incorporated or fabricated by the person into any real  
4 property, structure, project, development or improvement as part of the  
5 business.

6 (ii) Incorporated or fabricated by the person into any project  
7 described in section 42-5075, subsection 0.

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

10 (b) A person that is not subject to tax under section 42-5075 and  
11 that has been provided a copy of a certificate under section 42-5009,  
12 subsection L, if the property so sold is incorporated or fabricated by the  
13 person into the real property, structure, project, development or  
14 improvement described in the certificate.

15 28. The sale of a motor vehicle to:

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

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

23 29. Tangible personal property purchased in this state by a  
24 nonprofit charitable organization that has qualified under section  
25 501(c)(3) of the United States internal revenue code and that engages in  
26 and uses such property exclusively in programs for persons with mental or  
27 physical disabilities if the programs are exclusively for training, job  
28 placement, rehabilitation or testing.

29 30. Sales of tangible personal property by a nonprofit organization  
30 that is exempt from taxation under section 501(c)(3), 501(c)(4) or  
31 501(c)(6) of the internal revenue code if the organization is associated  
32 with a major league baseball team or a national touring professional  
33 golfing association and no part of the organization's net earnings inures  
34 to the benefit of any private shareholder or individual.

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

40 32. Sales of tangible personal property by a nonprofit organization  
41 that is exempt from taxation under section 501(c)(3), 501(c)(4),  
42 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the  
43 organization sponsors or operates a rodeo featuring primarily farm and  
44 ranch animals and no part of the organization's net earnings inures to the  
45 benefit of any private shareholder or individual.

1           33. Sales of seeds, seedlings, roots, bulbs, cuttings and other  
2 propagative material to persons who use those items to commercially  
3 produce agricultural, horticultural, viticultural or floricultural crops  
4 in this state.

5           34. Machinery, equipment, technology or related supplies that are  
6 only useful to assist a person with a physical disability as defined in  
7 section 46-191 or a person who has a developmental disability as defined  
8 in section 36-551 or has a head injury as defined in section 41-3201 to be  
9 more independent and functional.

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

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

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

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

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

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

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

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

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

18 42. Sales of:

19 (a) Livestock and poultry to persons engaging in the businesses of  
20 farming, ranching or producing livestock or poultry.

21 (b) Livestock and poultry feed, salts, vitamins and other additives  
22 for livestock or poultry consumption that are sold to persons for use or  
23 consumption by their own livestock or poultry, for use or consumption in  
24 the businesses of farming, ranching and producing or feeding livestock,  
25 poultry, or livestock or poultry products or for use or consumption in  
26 noncommercial boarding of livestock. For the purposes of this paragraph,  
27 "poultry" includes ratites.

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

34 44. Sales of motor vehicles at auction to nonresidents of this  
35 state for use outside this state if the vehicles are shipped or delivered  
36 out of this state, regardless of where title to the motor vehicles passes  
37 or its free on board point.

38 45. Tangible personal property sold to a person engaged in business  
39 and subject to tax under the transient lodging classification if the  
40 tangible personal property is a personal hygiene item or articles used by  
41 human beings for food, drink or condiment, except alcoholic beverages,  
42 that are furnished without additional charge to and intended to be  
43 consumed by the transient during the transient's occupancy.

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

4           47. Sales of materials that are purchased by or for publicly funded  
5 libraries including school district libraries, charter school libraries,  
6 community college libraries, state university libraries or federal, state,  
7 county or municipal libraries for use by the public as follows:

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

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

10          48. Tangible personal property sold to a commercial airline and  
11 consisting of food, beverages and condiments and accessories used for  
12 serving the food and beverages, if those items are to be provided without  
13 additional charge to passengers for consumption in flight. For the  
14 purposes of this paragraph, "commercial airline" means a person holding a  
15 federal certificate of public convenience and necessity or foreign air  
16 carrier permit for air transportation to transport persons, property or  
17 United States mail in intrastate, interstate or foreign commerce.

18          49. Sales of alternative fuel vehicles if the vehicle was  
19 manufactured as a diesel fuel vehicle and converted to operate on  
20 alternative fuel and equipment that is installed in a conventional diesel  
21 fuel motor vehicle to convert the vehicle to operate on an alternative  
22 fuel, as defined in section 1-215.

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

26          51. Sales of tangible personal property to be incorporated or  
27 installed as part of environmental response or remediation activities  
28 under section 42-5075, subsection B, paragraph 6.

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

34          53. Application services that are designed to assess or test  
35 student learning or to promote curriculum design or enhancement purchased  
36 by or for any school district, charter school, community college or state  
37 university. For the purposes of this paragraph:

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

40           (b) "Curriculum design or enhancement" means planning, implementing  
41 or reporting on courses of study, lessons, assignments or other learning  
42 activities.

43          54. Sales of motor vehicle fuel and use fuel to a qualified  
44 business under section 41-1516 for off-road use in harvesting, processing

1 or transporting qualifying forest products removed from qualifying  
2 projects as defined in section 41-1516.

3 55. Sales of repair parts installed in equipment used directly by a  
4 qualified business under section 41-1516 in harvesting, processing or  
5 transporting qualifying forest products removed from qualifying projects  
6 as defined in section 41-1516.

7 56. Sales or other transfers of renewable energy credits or any  
8 other unit created to track energy derived from renewable energy  
9 resources. For the purposes of this paragraph, "renewable energy credit"  
10 means a unit created administratively by the corporation commission or  
11 governing body of a public power utility to track kilowatt hours of  
12 electricity derived from a renewable energy resource or the kilowatt hour  
13 equivalent of conventional energy resources displaced by distributed  
14 renewable energy resources.

15 57. Computer data center equipment sold to the owner, operator or  
16 qualified colocation tenant of a computer data center that is certified by  
17 the Arizona commerce authority under section 41-1519 or an authorized  
18 agent of the owner, operator or qualified colocation tenant during the  
19 qualification period for use in the qualified computer data center. For  
20 the purposes of this paragraph, "computer data center", "computer data  
21 center equipment", "qualification period" and "qualified colocation  
22 tenant" have the same meanings prescribed in section 41-1519.

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

26 59. Sales of tangible personal property incorporated or fabricated  
27 into a project described in section 42-5075, subsection 0, that is located  
28 within the exterior boundaries of an Indian reservation for which the  
29 owner, as defined in section 42-5075, of the project is an Indian tribe or  
30 an affiliated Indian. For the purposes of this paragraph:

31 (a) "Affiliated Indian" means an individual native American Indian  
32 who is duly registered on the tribal rolls of the Indian tribe for whose  
33 benefit the Indian reservation was established.

34 (b) "Indian reservation" means all lands that are within the limits  
35 of areas set aside by the United States for the exclusive use and  
36 occupancy of an Indian tribe by treaty, law or executive order and that  
37 are recognized as Indian reservations by the United States department of  
38 the interior.

39 (c) "Indian tribe" means any organized nation, tribe, band or  
40 community that is recognized as an Indian tribe by the United States  
41 department of the interior and includes any entity formed under the laws  
42 of the Indian tribe.

43 60. Sales of works of fine art, as defined in section 44-1771, at  
44 an art auction or gallery in this state to nonresidents of this state for

1 use outside this state if the vendor ships or delivers the work of fine  
2 art to a destination outside this state.

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

7 1. Machinery, or equipment, used directly in manufacturing,  
8 processing, fabricating, job printing, refining or metallurgical  
9 operations. The terms "manufacturing", "processing", "fabricating", "job  
10 printing", "refining" and "metallurgical" as used in this paragraph refer  
11 to and include those operations commonly understood within their ordinary  
12 meaning. "Metallurgical operations" includes leaching, milling,  
13 precipitating, smelting and refining.

14 2. Mining machinery, or equipment, used directly in the process of  
15 extracting ores or minerals from the earth for commercial purposes,  
16 including equipment required to prepare the materials for extraction and  
17 handling, loading or transporting such extracted material to the surface.  
18 "Mining" includes underground, surface and open pit operations for  
19 extracting ores and minerals.

20 3. Tangible personal property sold to persons engaged in business  
21 classified under the telecommunications classification, including a person  
22 representing or working on behalf of such a person in a manner described  
23 in section 42-5075, subsection 0, and consisting of central office  
24 switching equipment, switchboards, private branch exchange equipment,  
25 microwave radio equipment and carrier equipment including optical fiber,  
26 coaxial cable and other transmission media that are components of carrier  
27 systems.

28 4. Machinery, equipment or transmission lines used directly in  
29 producing or transmitting electrical power, but not including  
30 distribution. Transformers and control equipment used at transmission  
31 substation sites constitute equipment used in producing or transmitting  
32 electrical power.

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

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

41 7. Aircraft, navigational and communication instruments and other  
42 accessories and related equipment sold to:

43 (a) A person:

44 (i) Holding, or exempted by federal law from obtaining, a federal  
45 certificate of public convenience and necessity for use as, in conjunction

1 with or becoming part of an aircraft to be used to transport persons for  
2 hire in intrastate, interstate or foreign commerce.

3 (ii) That is certificated or licensed under federal aviation  
4 administration regulations (14 Code of Federal Regulations part 121 or  
5 135) as a scheduled or unscheduled carrier of persons for hire for use as  
6 or in conjunction with or becoming part of an aircraft to be used to  
7 transport persons for hire in intrastate, interstate or foreign commerce.

8 (iii) Holding a foreign air carrier permit for air transportation  
9 for use as or in conjunction with or becoming a part of aircraft to be  
10 used to transport persons, property or United States mail in intrastate,  
11 interstate or foreign commerce.

12 (iv) Operating an aircraft to transport persons in any manner for  
13 compensation or hire, or for use in a fractional ownership program that  
14 meets the requirements of federal aviation administration regulations (14  
15 Code of Federal Regulations part 91, subpart K), including as an air  
16 carrier, a foreign air carrier or a commercial operator or under a  
17 restricted category, within the meaning of 14 Code of Federal Regulations,  
18 regardless of whether the operation or aircraft is regulated or certified  
19 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code  
20 of Federal Regulations.

21 (v) That will lease or otherwise transfer operational control,  
22 within the meaning of federal aviation administration operations  
23 specification A008, or its successor, of the aircraft, instruments or  
24 accessories to one or more persons described in item (i), (ii), (iii) or  
25 (iv) of this subdivision, subject to section 42-5009, subsection Q.

26 (b) Any foreign government.

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

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

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

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

43 11. Buses or other urban mass transit vehicles that are used  
44 directly to transport persons or property for hire or pursuant to a  
45 governmentally adopted and controlled urban mass transportation program

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

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

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

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

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

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

33 15. Tangible personal property that is used by either of the  
34 following to receive, store, convert, produce, generate, decode, encode,  
35 control or transmit telecommunications information:

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

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

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

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

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

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

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

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

27 17. Machinery and equipment used directly in the feeding of  
28 poultry, the environmental control of housing for poultry, the movement of  
29 eggs within a production and packaging facility or the sorting or cooling  
30 of eggs. This exemption does not apply to vehicles used for transporting  
31 eggs.

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

42 19. Machinery and equipment that are sold to a person engaged in  
43 the commercial production of livestock, livestock products or  
44 agricultural, horticultural, viticultural or floricultural crops or  
45 products in this state, including a person representing or working on

1 behalf of such a person in a manner described in section 42-5075,  
2 subsection 0, if the machinery and equipment are used directly and  
3 primarily to prevent, monitor, control or reduce air, water or land  
4 pollution.

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

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

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

17 (c) Any machinery or equipment purchased after the television  
18 station has ceased analog broadcasting, or purchased after November 1,  
19 2009, whichever occurs first.

20 21. Qualifying equipment that is purchased from and after June 30,  
21 2004 through June 30, 2024 by a qualified business under section 41-1516  
22 for harvesting or processing qualifying forest products removed from  
23 qualifying projects as defined in section 41-1516. To qualify for this  
24 deduction, the qualified business at the time of purchase must present its  
25 certification approved by the department.

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

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

32 2. Janitorial equipment and hand tools.

33 3. Office equipment, furniture and supplies.

34 4. Tangible personal property used in selling or distributing  
35 activities, other than the telecommunications transmissions described in  
36 subsection B, paragraph 15 of this section.

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

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

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

44 8. Machinery and equipment or other tangible personal property used  
45 by a contractor in the performance of a contract.

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

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

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

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

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

33           1. Agricultural producers who are owners, proprietors or tenants of  
34 agricultural lands, orchards, farms or gardens where agricultural products  
35 are grown, raised or prepared for market and who are marketing their own  
36 agricultural products.

37           2. Businesses classified under the:

38           (a) Transporting classification.

39           (b) Utilities classification.

40           (c) Telecommunications classification.

41           (d) Pipeline classification.

42           (e) Private car line classification.

43           (f) Publication classification.

44           (g) Job printing classification.

45           (h) Prime contracting classification.

1 (i) Restaurant classification.

2 I. The gross proceeds of sales or gross income derived from the  
3 following shall be deducted from the tax base for the retail  
4 classification:

5 1. Sales made directly to the United States government or its  
6 departments or agencies by a manufacturer, modifier, assembler or  
7 repairer.

8 2. Sales made directly to a manufacturer, modifier, assembler or  
9 repairer if such sales are of any ingredient or component part of products  
10 sold directly to the United States government or its departments or  
11 agencies by the manufacturer, modifier, assembler or repairer.

12 3. Overhead materials or other tangible personal property that is  
13 used in performing a contract between the United States government and a  
14 manufacturer, modifier, assembler or repairer, including property used in  
15 performing a subcontract with a government contractor who is a  
16 manufacturer, modifier, assembler or repairer, to which title passes to  
17 the government under the terms of the contract or subcontract.

18 4. Sales of overhead materials or other tangible personal property  
19 to a manufacturer, modifier, assembler or repairer if the gross proceeds  
20 of sales or gross income derived from the property by the manufacturer,  
21 modifier, assembler or repairer will be exempt under paragraph 3 of this  
22 subsection.

23 J. There shall be deducted from the tax base fifty percent of the  
24 gross proceeds or gross income from any sale of tangible personal property  
25 made directly to the United States government or its departments or  
26 agencies that is not deducted under subsection I of this section.

27 K. The department shall require every person claiming a deduction  
28 provided by subsection I or J of this section to file on forms prescribed  
29 by the department at such times as the department directs a sworn  
30 statement disclosing the name of the purchaser and the exact amount of  
31 sales on which the exclusion or deduction is claimed.

32 L. In computing the tax base, gross proceeds of sales or gross  
33 income does not include:

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

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

38 M. There shall be deducted from the tax base the amount received  
39 from sales of solar energy devices. The retailer shall register with the  
40 department as a solar energy retailer. By registering, the retailer  
41 acknowledges that it will make its books and records relating to sales of  
42 solar energy devices available to the department for examination.

43 N. In computing the tax base in the case of the sale or transfer of  
44 wireless telecommunications equipment as an inducement to a customer to  
45 enter into or continue a contract for telecommunications services that are

1 taxable under section 42-5064, gross proceeds of sales or gross income  
2 does not include any sales commissions or other compensation received by  
3 the retailer as a result of the customer entering into or continuing a  
4 contract for the telecommunications services.

5 O. For the purposes of this section, a sale of wireless  
6 telecommunications equipment to a person who holds the equipment for sale  
7 or transfer to a customer as an inducement to enter into or continue a  
8 contract for telecommunications services that are taxable under section  
9 42-5064 is considered to be a sale for resale in the regular course of  
10 business.

11 P. Retail sales of prepaid calling cards or prepaid authorization  
12 numbers for telecommunications services, including sales of  
13 reauthorization of a prepaid card or authorization number, are subject to  
14 tax under this section.

15 Q. For the purposes of this section, the diversion of gas from a  
16 pipeline by a person engaged in the business of:

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

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

23 R. For the purposes of this section, the transfer of title or  
24 possession of coal from an owner or operator of a power plant to a person  
25 in the business of refining coal is not a sale of coal if both of the  
26 following apply:

27 1. The transfer of title or possession of the coal is for the  
28 purpose of refining the coal.

29 2. The title or possession of the coal is transferred back to the  
30 owner or operator of the power plant after completion of the coal refining  
31 process. For the purposes of this paragraph, "coal refining process"  
32 means the application of a coal additive system that aids in the reduction  
33 of power plant emissions during the combustion of coal and the treatment  
34 of flue gas.

35 S. If a seller is entitled to a deduction pursuant to subsection B,  
36 paragraph 15, subdivision (b) of this section, the department may require  
37 the purchaser to establish that the requirements of subsection B,  
38 paragraph 15, subdivision (b) of this section have been satisfied. If the  
39 purchaser cannot establish that the requirements of subsection B,  
40 paragraph 15, subdivision (b) of this section have been satisfied, the  
41 purchaser is liable in an amount equal to any tax, penalty and interest  
42 that the seller would have been required to pay under article 1 of this  
43 chapter if the seller had not made a deduction pursuant to subsection B,  
44 paragraph 15, subdivision (b) of this section. Payment of the amount  
45 under this subsection exempts the purchaser from liability for any tax

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

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

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

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

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

27 V. For the purposes of this section:

28 1. "Agricultural aircraft" means an aircraft that is built for  
29 agricultural use for the aerial application of pesticides or fertilizer or  
30 for aerial seeding.

31 2. "Aircraft" includes:

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

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

38 3. "Other accessories and related equipment" includes aircraft  
39 accessories and equipment such as ground service equipment that physically  
40 contact aircraft at some point during the overall carrier operation.

41 4. "Selling at retail" means a sale for any purpose other than for  
42 resale in the regular course of business in the form of tangible personal  
43 property, but transfer of possession, lease and rental as used in the  
44 definition of sale mean only such transactions as are found on

1 investigation to be in lieu of sales as defined without the words lease or  
2 rental.

3 W. For the purposes of subsection I of this section:

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

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

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

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

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

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

32 Sec. 16. Section 42-5159, Arizona Revised Statutes, is amended to  
33 read:

34 42-5159. Exemptions

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

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

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

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

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

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

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

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

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

30 8. Purchases of:

31 (a) Livestock and poultry to persons engaging in the businesses of  
32 farming, ranching or producing livestock or poultry.

33 (b) Livestock and poultry feed, salts, vitamins and other additives  
34 sold to persons for use or consumption in the businesses of farming,  
35 ranching and producing or feeding livestock or poultry or for use or  
36 consumption in noncommercial boarding of livestock. For the purposes of  
37 this paragraph, "poultry" includes ratites.

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

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

1           11. Advertising supplements that are intended for sale with  
2 newspapers published in this state and that have already been subjected to  
3 an excise tax under the laws of another state in the United States that  
4 equals or exceeds the tax imposed by this article.

5           12. Materials that are purchased by or for publicly funded  
6 libraries including school district libraries, charter school libraries,  
7 community college libraries, state university libraries or federal, state,  
8 county or municipal libraries for use by the public as follows:

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

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

11          13. Tangible personal property purchased by:

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

15          (b) A hospital operated by this state or a political subdivision of  
16 this state.

17          (c) A licensed nursing care institution or a licensed residential  
18 care institution or a residential care facility operated in conjunction  
19 with a licensed nursing care institution or a licensed kidney dialysis  
20 center, which provides medical services, nursing services or health  
21 related services and is not used or held for profit.

22          (d) A qualifying health care organization, as defined in section  
23 42-5001, if the tangible personal property is used by the organization  
24 solely to provide health and medical related educational and charitable  
25 services.

26          (e) A qualifying health care organization as defined in section  
27 42-5001 if the organization is dedicated to providing educational,  
28 therapeutic, rehabilitative and family medical education training for  
29 blind and visually impaired children and children with multiple  
30 disabilities from the time of birth to age twenty-one.

31          (f) A nonprofit charitable organization that has qualified under  
32 section 501(c)(3) of the United States internal revenue code and that  
33 engages in and uses such property exclusively in programs for persons with  
34 mental or physical disabilities if the programs are exclusively for  
35 training, job placement, rehabilitation or testing.

36          (g) A person that is subject to tax under this chapter by reason of  
37 being engaged in business classified under section 42-5075, or a  
38 subcontractor working under the control of a person that is engaged in  
39 business classified under section 42-5075, if the tangible personal  
40 property is any of the following:

41           (i) Incorporated or fabricated by the person into a structure,  
42 project, development or improvement in fulfillment of a contract.

43           (ii) Incorporated or fabricated by the person into any project  
44 described in section 42-5075, subsection 0.

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

3 (h) A person that is not subject to tax under section 42-5075 and  
4 that has been provided a copy of a certificate described in section  
5 42-5009, subsection L, if the property purchased is incorporated or  
6 fabricated by the person into the real property, structure, project,  
7 development or improvement described in the certificate.

8 (i) A nonprofit charitable organization that has qualified under  
9 section 501(c)(3) of the internal revenue code if the property is  
10 purchased from the parent or an affiliate organization that is located  
11 outside this state.

12 (j) A qualifying community health center as defined in section  
13 42-5001.

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

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

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

30 (n) A qualifying health sciences educational institution as defined  
31 in section 42-5001.

32 (o) A person representing or working on behalf of any person  
33 described in subdivision (a), (b), (c), (d), (e), (f), (i), (j), (k), (m)  
34 or (n) of this paragraph, if the tangible personal property is  
35 incorporated or fabricated into a project described in section 42-5075,  
36 subsection 0.

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

42 15. Tangible personal property sold by:

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

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

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

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

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

21 18. Prescription eyeglasses and contact lenses.

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

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

24 21. Durable medical equipment that has a centers for medicare and  
25 medicaid services common procedure code, is designated reimbursable by  
26 medicare, is prescribed by a person who is licensed under title 32,  
27 chapter 7, 13, 17 or 29, can withstand repeated use, is primarily and  
28 customarily used to serve a medical purpose, is generally not useful to a  
29 person in the absence of illness or injury and is appropriate for use in  
30 the home.

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

33 23. Items purchased with United States department of agriculture  
34 ~~food stamp~~ coupons issued under the ~~food stamp act of 1977 (P.L. 95-113;~~  
35 ~~91 Stat. 958)~~ SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM PURSUANT TO THE  
36 FOOD AND NUTRITION ACT OF 2008 (P.L. 88-525; 78 STAT 703; 7 UNITED STATES  
37 CODE SECTIONS 2011 THROUGH 2036b) BY THE UNITED STATES DEPARTMENT OF  
38 AGRICULTURE FOOD AND NUTRITION SERVICE or food instruments issued under  
39 section 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L.  
40 99-661, section 4302; P.L. 111-296; 42 United States Code section 1786).

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

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

4           26. Food, drink or condiment and accessory tangible personal  
5 property that are acquired for use by or provided to a school district or  
6 charter school if they are to be either served or prepared and served to  
7 persons for consumption on the premises of a public school in the school  
8 district or on the premises of the charter school during school hours.

9           27. Lottery tickets or shares purchased pursuant to title 5,  
10 chapter 5.1, article 1.

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

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

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

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

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

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

33           (b) Public educational institutions.

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

37           33. Natural gas or liquefied petroleum gas used to propel a motor  
38 vehicle.

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

44           35. Liquid, solid or gaseous chemicals used in manufacturing,  
45 processing, fabricating, mining, refining, metallurgical operations,

1 research and development and, beginning on January 1, 1999, printing, if  
2 using or consuming the chemicals, alone or as part of an integrated system  
3 of chemicals, involves direct contact with the materials from which the  
4 product is produced for the purpose of causing or permitting a chemical or  
5 physical change to occur in the materials as part of the production  
6 process. This paragraph does not include chemicals that are used or  
7 consumed in activities such as packaging, storage or transportation but  
8 does not affect any exemption for such chemicals that is otherwise  
9 provided by this section. For the purposes of this paragraph, "printing"  
10 means a commercial printing operation and includes job printing,  
11 engraving, embossing, copying and bookbinding.

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

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

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

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

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

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

1 includes provisions incorporating such title passing clauses in a  
2 government contract into the subcontract.

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

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

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

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

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

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

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

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

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

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

43 48. Tangible personal property sold by a nonprofit organization  
44 that is exempt from taxation under section 501(c)(6) of the internal  
45 revenue code if the organization produces, organizes or promotes cultural

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

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

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

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

14 (b) "Curriculum design or enhancement" means planning, implementing  
15 or reporting on courses of study, lessons, assignments or other learning  
16 activities.

17 51. Motor vehicle fuel and use fuel to a qualified business under  
18 section 41-1516 for off-road use in harvesting, processing or transporting  
19 qualifying forest products removed from qualifying projects as defined in  
20 section 41-1516.

21 52. Repair parts installed in equipment used directly by a  
22 qualified business under section 41-1516 in harvesting, processing or  
23 transporting qualifying forest products removed from qualifying projects  
24 as defined in section 41-1516.

25 53. Renewable energy credits or any other unit created to track  
26 energy derived from renewable energy resources. For the purposes of this  
27 paragraph, "renewable energy credit" means a unit created administratively  
28 by the corporation commission or governing body of a public power entity  
29 to track kilowatt hours of electricity derived from a renewable energy  
30 resource or the kilowatt hour equivalent of conventional energy resources  
31 displaced by distributed renewable energy resources.

32 54. Computer data center equipment sold to the owner, operator or  
33 qualified colocation tenant of a computer data center that is certified by  
34 the Arizona commerce authority under section 41-1519 or an authorized  
35 agent of the owner, operator or qualified colocation tenant during the  
36 qualification period for use in the qualified computer data center. For  
37 the purposes of this paragraph, "computer data center", "computer data  
38 center equipment", "qualification period" and "qualified colocation  
39 tenant" have the same meanings prescribed in section 41-1519.

40 55. Coal acquired from an owner or operator of a power plant by a  
41 person who is responsible for refining coal if both of the following  
42 apply:

43 (a) The transfer of title or possession of the coal is for the  
44 purpose of refining the coal.

1 (b) The title or possession of the coal is transferred back to the  
2 owner or operator of the power plant after completion of the coal refining  
3 process. For the purposes of this subdivision, "coal refining process"  
4 means the application of a coal additive system that aids the reduction of  
5 power plant emissions during the combustion of coal and the treatment of  
6 flue gas.

7 56. Tangible personal property incorporated or fabricated into a  
8 project described in section 42-5075, subsection 0, that is located within  
9 the exterior boundaries of an Indian reservation for which the owner, as  
10 defined in section 42-5075, of the project is an Indian tribe or an  
11 affiliated Indian. For the purposes of this paragraph:

12 (a) "Affiliated Indian" means an individual native American Indian  
13 who is duly registered on the tribal rolls of the Indian tribe for whose  
14 benefit the Indian reservation was established.

15 (b) "Indian reservation" means all lands that are within the limits  
16 of areas set aside by the United States for the exclusive use and  
17 occupancy of an Indian tribe by treaty, law or executive order and that  
18 are recognized as Indian reservations by the United States department of  
19 the interior.

20 (c) "Indian tribe" means any organized nation, tribe, band or  
21 community that is recognized as an Indian tribe by the United States  
22 department of the interior and includes any entity formed under the laws  
23 of the Indian tribe.

24 57. Cash equivalents, precious metal bullion and monetized bullion  
25 purchased by the ultimate consumer, but coins or other forms of money for  
26 manufacture into jewelry or works of art are subject to tax, and tangible  
27 personal property that is purchased through the redemption of any cash  
28 equivalent by the holder as a means of payment for goods that are subject  
29 to tax under this article is subject to tax. For the purposes of this  
30 paragraph:

31 (a) "Cash equivalents" means items, whether or not negotiable, that  
32 are sold to one or more persons, through which a value denominated in  
33 money is purchased in advance and that may be redeemed in full or in part  
34 for tangible personal property, intangibles or services. Cash equivalents  
35 include gift cards, stored value cards, gift certificates, vouchers,  
36 traveler's checks, money orders or other tangible instruments or orders.  
37 Cash equivalents do not include either of the following:

38 (i) Items that are sold to one or more persons and through which a  
39 value is not denominated in money.

40 (ii) Prepaid calling cards for telecommunications services.

41 (b) "Monetized bullion" means coins and other forms of money that  
42 are manufactured from gold, silver or other metals and that have been or  
43 are used as a medium of exchange in this or another state, the United  
44 States or a foreign nation.

1 (c) "Precious metal bullion" means precious metal, including gold,  
2 silver, platinum, rhodium and palladium, that has been smelted or refined  
3 so that its value depends on its contents and not on its form.

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

7 1. Machinery, or equipment, used directly in manufacturing,  
8 processing, fabricating, job printing, refining or metallurgical  
9 operations. The terms "manufacturing", "processing", "fabricating", "job  
10 printing", "refining" and "metallurgical" as used in this paragraph refer  
11 to and include those operations commonly understood within their ordinary  
12 meaning. "Metallurgical operations" includes leaching, milling,  
13 precipitating, smelting and refining.

14 2. Machinery, or equipment, used directly in the process of  
15 extracting ores or minerals from the earth for commercial purposes,  
16 including equipment required to prepare the materials for extraction and  
17 handling, loading or transporting such extracted material to the surface.  
18 "Mining" includes underground, surface and open pit operations for  
19 extracting ores and minerals.

20 3. Tangible personal property sold to persons engaged in business  
21 classified under the telecommunications classification under section  
22 42-5064, including a person representing or working on behalf of such a  
23 person in a manner described in section 42-5075, subsection 0, and  
24 consisting of central office switching equipment, switchboards, private  
25 branch exchange equipment, microwave radio equipment and carrier equipment  
26 including optical fiber, coaxial cable and other transmission media that  
27 are components of carrier systems.

28 4. Machinery, equipment or transmission lines used directly in  
29 producing or transmitting electrical power, but not including  
30 distribution. Transformers and control equipment used at transmission  
31 substation sites constitute equipment used in producing or transmitting  
32 electrical power.

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

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

41 7. Aircraft, navigational and communication instruments and other  
42 accessories and related equipment sold to:

43 (a) A person:

44 (i) Holding, or exempted by federal law from obtaining, a federal  
45 certificate of public convenience and necessity for use as, in conjunction

1 with or becoming part of an aircraft to be used to transport persons for  
2 hire in intrastate, interstate or foreign commerce.

3 (ii) That is certificated or licensed under federal aviation  
4 administration regulations (14 Code of Federal Regulations part 121 or  
5 135) as a scheduled or unscheduled carrier of persons for hire for use as  
6 or in conjunction with or becoming part of an aircraft to be used to  
7 transport persons for hire in intrastate, interstate or foreign commerce.

8 (iii) Holding a foreign air carrier permit for air transportation  
9 for use as or in conjunction with or becoming a part of aircraft to be  
10 used to transport persons, property or United States mail in intrastate,  
11 interstate or foreign commerce.

12 (iv) Operating an aircraft to transport persons in any manner for  
13 compensation or hire, or for use in a fractional ownership program that  
14 meets the requirements of federal aviation administration regulations (14  
15 Code of Federal Regulations part 91, subpart K), including as an air  
16 carrier, a foreign air carrier or a commercial operator or under a  
17 restricted category, within the meaning of 14 Code of Federal Regulations,  
18 regardless of whether the operation or aircraft is regulated or certified  
19 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code  
20 of Federal Regulations.

21 (v) That will lease or otherwise transfer operational control,  
22 within the meaning of federal aviation administration operations  
23 specification A008, or its successor, of the aircraft, instruments or  
24 accessories to one or more persons described in item (i), (ii), (iii) or  
25 (iv) of this subdivision, subject to section 42-5009, subsection Q.

26 (b) Any foreign government.

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

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

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

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

43 11. Buses or other urban mass transit vehicles that are used  
44 directly to transport persons or property for hire or pursuant to a  
45 governmentally adopted and controlled urban mass transportation program

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

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

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

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

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

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

33 15. Tangible personal property that is used by either of the  
34 following to receive, store, convert, produce, generate, decode, encode,  
35 control or transmit telecommunications information:

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

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

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

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

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

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

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

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

27 17. Machinery and equipment that are used directly in the feeding  
28 of poultry, the environmental control of housing for poultry, the movement  
29 of eggs within a production and packaging facility or the sorting or  
30 cooling of eggs. This exemption does not apply to vehicles used for  
31 transporting eggs.

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

42 19. Machinery and equipment that are used in the commercial  
43 production of livestock, livestock products or agricultural,  
44 horticultural, viticultural or floricultural crops or products in this  
45 state, including production by a person representing or working on behalf

1 of such a person in a manner described in section 42-5075, subsection 0,  
2 if the machinery and equipment are used directly and primarily to prevent,  
3 monitor, control or reduce air, water or land pollution.

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

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

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

16 (c) Any machinery or equipment purchased after the television  
17 station has ceased analog broadcasting, or purchased after November 1,  
18 2009, whichever occurs first.

19 21. Qualifying equipment that is purchased from and after June 30,  
20 2004 through June 30, 2024 by a qualified business under section 41-1516  
21 for harvesting or processing qualifying forest products removed from  
22 qualifying projects as defined in section 41-1516. To qualify for this  
23 exemption, the qualified business must obtain and present its  
24 certification from the Arizona commerce authority at the time of purchase.

25 22. Machinery, equipment, materials and other tangible personal  
26 property used directly and predominantly to construct a qualified  
27 environmental technology manufacturing, producing or processing facility  
28 as described in section 41-1514.02. This paragraph applies for ten full  
29 consecutive calendar or fiscal years after the start of initial  
30 construction.

31 C. The exemptions provided by subsection B of this section do not  
32 include:

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

37 2. Janitorial equipment and hand tools.

38 3. Office equipment, furniture and supplies.

39 4. Tangible personal property used in selling or distributing  
40 activities, other than the telecommunications transmissions described in  
41 subsection B, paragraph 15 of this section.

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

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

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

4           8. Machinery and equipment or tangible personal property used by a  
5 contractor in the performance of a contract.

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

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

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

19           E. The tax levied by this article does not apply to the purchase of  
20 solar energy devices from a retailer that is registered with the  
21 department as a solar energy retailer or a solar energy contractor.

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

24           1. Fees charged by a municipally owned utility to persons  
25 constructing residential, commercial or industrial developments or  
26 connecting residential, commercial or industrial developments to a  
27 municipal utility system or systems if the fees are segregated and used  
28 only for capital expansion, system enlargement or debt service of the  
29 utility system or systems.

30           2. Reimbursement or contribution compensation to any person or  
31 persons owning a utility system for property and equipment installed to  
32 provide utility access to, on or across the land of an actual utility  
33 consumer if the property and equipment become the property of the utility.  
34 This deduction shall not exceed the value of such property and equipment.

35           G. The tax levied by this article does not apply to the purchase  
36 price of electricity, natural gas or liquefied petroleum gas by:

37           1. A qualified manufacturing or smelting business. A utility that  
38 claims this deduction shall report each month, on a form prescribed by the  
39 department, the name and address of each qualified manufacturing or  
40 smelting business for which this deduction is taken. This paragraph  
41 applies to gas transportation services. For the purposes of this  
42 paragraph:

43           (a) "Gas transportation services" means the services of  
44 transporting natural gas to a natural gas customer or to a natural gas

1 distribution facility if the natural gas was purchased from a supplier  
2 other than the utility.

3 (b) "Manufacturing" means the performance as a business of an  
4 integrated series of operations that places tangible personal property in  
5 a form, composition or character different from that in which it was  
6 acquired and transforms it into a different product with a distinctive  
7 name, character or use. Manufacturing does not include job printing,  
8 publishing, packaging, mining, generating electricity or operating a  
9 restaurant.

10 (c) "Qualified manufacturing or smelting business" means one of the  
11 following:

12 (i) A business that manufactures or smelts tangible products in  
13 this state, of which at least fifty-one percent of the manufactured or  
14 smelted products will be exported out of state for incorporation into  
15 another product or sold out of state for a final sale.

16 (ii) A business that derives at least fifty-one percent of its  
17 gross income from the sale of manufactured or smelted products  
18 manufactured or smelted by the business.

19 (iii) A business that uses at least fifty-one percent of its square  
20 footage in this state for manufacturing or smelting and business  
21 activities directly related to manufacturing or smelting.

22 (iv) A business that employs at least fifty-one percent of its  
23 workforce in this state in manufacturing or smelting and business  
24 activities directly related to manufacturing or smelting.

25 (v) A business that uses at least fifty-one percent of the value of  
26 its capitalized assets in this state, as reflected on the business's books  
27 and records, for manufacturing or smelting and business activities  
28 directly related to manufacturing or smelting.

29 (d) "Smelting" means to melt or fuse a metalliferous mineral, often  
30 with an accompanying chemical change, usually to separate the metal.

31 2. A business that operates an international operations center in  
32 this state and that is certified by the Arizona commerce authority  
33 pursuant to section 41-1520.

34 H. For the purposes of subsection B of this section:

35 1. "Agricultural aircraft" means an aircraft that is built for  
36 agricultural use for the aerial application of pesticides or fertilizer or  
37 for aerial seeding.

38 2. "Aircraft" includes:

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

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

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

4           I. For the purposes of subsection D of this section, "ancillary  
5 services", "electric distribution service", "electric generation service",  
6 "electric transmission service" and "other services" have the same  
7 meanings prescribed in section 42-5063.

8           Sec. 17. Section 42-6108.01, Arizona Revised Statutes, is amended  
9 to read:

10           42-6108.01. Tax on hotels

11           A. The qualified electors residing in a county having a population  
12 of less than two million but more than five hundred thousand persons, by  
13 majority vote at an election held in the county, may levy and, if levied,  
14 the department of revenue shall collect a tax on the gross proceeds of  
15 sales or gross income from the business of every person engaging or  
16 continuing in a business taxed under chapter 5 of this title and  
17 classified under section 42-5070 OR 42-5076 within the county. A tax  
18 under this section:

19           1. Is in addition to taxes imposed by chapter 5 of this title; AND  
20 section 42-6108 and any tax imposed by a city or town in the county.

21           2. Applies in both incorporated and unincorporated areas of the  
22 county.

23           B. If levied, the tax shall be levied under this section beginning  
24 on the first day of the first month beginning ninety days after the  
25 election to levy the tax. The tax shall be in effect for thirty years.  
26 The tax may be extended by majority vote of the qualified electors  
27 residing in the county at an election held in the county for a period of  
28 not more than ten years.

29           C. The rate of the tax is one per cent of the tax base prescribed  
30 by section 42-5070 OR 42-5076.

31           D. Each month the state treasurer shall credit the net revenues  
32 collected pursuant to this section to the tourism fund established by  
33 section 41-2306.

34           Sec. 18. Section 42-11132, Arizona Revised Statutes, is amended to  
35 read:

36           42-11132. Property leased to educational institutions

37           A. Property, buildings and fixtures that are leased to a ~~not for~~  
38 ~~profit~~ NONPROFIT charter school and that are used for educational  
39 instruction in any grade or program through grade twelve shall be  
40 classified as class nine property pursuant to section 42-12009. If only  
41 part of a parcel of real property or improvements to real property is  
42 leased for operation of a charter school, only the portion so leased  
43 qualifies as class nine property.

44           B. Property, buildings and fixtures that are owned by an  
45 educational, a religious or a charitable organization, institution or

1 association and leased to a ~~not for profit~~ NONPROFIT educational  
2 organization, institution or association are exempt from taxation if the  
3 property is used for educational instruction in any grade or program  
4 through grade twelve.

5 C. If the educational, religious or charitable organization,  
6 institution or association that owns the property files with the assessor  
7 evidence of the organization's, INSTITUTION'S OR ASSOCIATION'S tax exempt  
8 status under section 501(c)(3) of the internal revenue code and an  
9 affidavit by the educational organization, institution or association that  
10 it uses the property for educational instruction as described in  
11 subsection B of this section, the property qualifies for the tax exemption  
12 under this section and is exempt from the requirement of filing subsequent  
13 affidavits under section 42-11152 until all or part of the property is  
14 conveyed to a new owner or is no longer used for educational purposes. At  
15 that time the EDUCATIONAL, religious or charitable organization,  
16 institution or association must notify the assessor of the change in  
17 writing.

18 Sec. 19. Section 42-15010, Arizona Revised Statutes, is amended to  
19 read:

20 42-15010. Applying assessment percentages

21 A. In preparing the tax rolls, the county assessor shall apply the  
22 appropriate percentage to the full cash value or limited property value of  
23 property, as applicable, to show the assessed valuation.

24 B. IF A PARCEL OF PROPERTY HAS MORE THAN ONE PERCENTAGE APPLIED TO  
25 ITS FULL CASH VALUE UNDER THIS SECTION DUE TO MULTIPLE USES, THE COUNTY  
26 ASSESSOR SHALL APPLY THE PERCENTAGE TO THE LIMITED PROPERTY VALUE OF THE  
27 PARCEL IN THE SAME PROPORTION AND IN THE SAME MANNER AS THE PARCEL'S FULL  
28 CASH VALUE.

29 Sec. 20. Section 43-224, Arizona Revised Statutes, is amended to  
30 read:

31 43-224. Individual and corporate income tax credits; annual  
32 report; termination of unused credits

33 A. On or before September 30 of each year, the department shall  
34 report to the directors of the joint legislative budget committee and the  
35 governor's office of strategic planning and budgeting on the amount of  
36 individual income tax credits and corporate income tax credits that were  
37 claimed in the previous fiscal year.

38 B. Except as provided by subsection C of this section, if, in any  
39 four consecutive reports under subsection A of this section, an individual  
40 or corporate income tax credit was not claimed by or allowed to any  
41 individual or corporate taxpayer, the director of the department of  
42 revenue shall:

43 1. Terminate the recognition and servicing of that credit for  
44 taxable years beginning from and after December 31 of the year in which  
45 the ~~second~~ FOURTH report is issued.

1           2. Issue a public announcement, including on the department's  
2 website, of the termination of the credit under authority of this section.

3           3. Notify the governor's office of strategic planning and  
4 budgeting, the president of the senate, the speaker of the house of  
5 representatives, the joint legislative budget committee and the  
6 legislative council.

7           4. Include the repeal of all statutes relating to the terminated  
8 credit in technical tax correction legislation for enactment in the next  
9 regular session of the legislature. If the legislature fails to enact  
10 this legislation, the director shall rescind the termination of the  
11 credit.

12           C. The director may not terminate under subsection B of this  
13 section the recognition and servicing of any income tax credit that is  
14 subject by law to preapproval by the Arizona commerce authority unless  
15 over any period of four consecutive calendar years both of the following  
16 conditions occur with respect to the credit:

17           1. The department has not received notice of preapproval of any  
18 applicant or project for the credit from the Arizona commerce authority.

19           2. In the report issued under subsection A of this section, the  
20 credit was not claimed by or allowed to any taxpayer.

21           Sec. 21. Section 43-309, Arizona Revised Statutes, is amended to  
22 read:

23           43-309. Joint returns of husband and wife

24           If a husband and wife are required to file a return pursuant to  
25 section 43-301, they may file a joint return under the following  
26 conditions:

27           1. ~~No~~ A joint return shall ~~NOT~~ be made if husband and wife have  
28 different taxable years. If such taxable years begin on the same day and  
29 end on different days because of the death of either or of both, ~~then~~ the  
30 joint return may be made with respect to the taxable year of each. Such  
31 ~~AN~~ exception ~~shall~~ ~~DOES~~ not apply if the surviving spouse remarried before  
32 the close of ~~his~~ ~~THE SURVIVING SPOUSE'S~~ taxable year, ~~nor~~ ~~OR~~ if the  
33 taxable year of either spouse is a fractional part of a year under section  
34 43-931, ~~subsection A~~.

35           2. In the case of the death of one or both spouses, the joint  
36 return with respect to the decedent may be made only by ~~his~~ ~~THE DECEDENT'S~~  
37 executor or administrator, except that in the case of the death of one  
38 spouse the joint return may be made by the surviving spouse with respect  
39 to both ~~himself~~ ~~THE SURVIVING SPOUSE~~ and the decedent if all of the  
40 following apply:

41           (a) ~~No~~ A return for the taxable year has ~~NOT~~ been made by the  
42 decedent.

43           (b) ~~No~~ AN executor or administrator has ~~NOT~~ been appointed.

44           (c) ~~No~~ AN executor or administrator is ~~NOT~~ appointed before the  
45 last day prescribed by law for filing the return of the surviving

1 spouse. If an executor or administrator of the decedent is appointed  
2 after the making of the joint return by the surviving spouse, the executor  
3 or administrator may disaffirm ~~such~~ THE joint return by making, within one  
4 year after the last day prescribed by law for filing the return of the  
5 surviving spouse, a separate return for the taxable year of the decedent  
6 with respect to which the joint return was made, in which case the return  
7 made by the survivor shall constitute ~~his~~ THE SURVIVOR'S separate return.

8 3. For THE purposes of this section, the status as husband and wife  
9 of two individuals having taxable years beginning on the same day shall be  
10 determined:

11 (a) If both have the same taxable year, as of the close of such  
12 year.

13 (b) If one dies before the close of the taxable year of the other,  
14 as of the time of such death.

15 Sec. 22. Repeal

16 Section 43-568, Arizona Revised Statutes, is repealed.

17 Sec. 23. Section 43-901, Arizona Revised Statutes, is amended to  
18 read:

19 43-901. Taxable income computation

20 Taxable income shall be computed ~~upon the basis of the taxpayer's~~  
21 ~~annual accounting period, fiscal year or calendar year as the case may be~~  
22 ~~in accordance with the method of accounting regularly employed in keeping~~  
23 ~~the books of such taxpayer. If no such method of accounting has been so~~  
24 ~~employed or if the method employed does not reflect the proper income, the~~  
25 ~~computation shall be made in accordance with such method as in the opinion~~  
26 ~~of the department does reflect the proper income. If the taxpayer's~~  
27 ~~annual accounting period is other than a fiscal year or if the taxpayer~~  
28 ~~has no annual accounting period or does not keep books, the taxable income~~  
29 ~~shall be computed on the basis of the calendar year~~ ON THE BASIS OF THE  
30 TAXPAYER'S TAXABLE YEAR AS DEFINED IN SECTION 441 OF THE INTERNAL REVENUE  
31 CODE.

32 Sec. 24. Repeal

33 Sections 43-902, 43-903 and 43-904, Arizona Revised Statutes, are  
34 repealed.

35 Sec. 25. Renumber

36 Section 43-905, Arizona Revised Statutes, is renumbered as a new  
37 section 43-902.

38 Sec. 26. Section 43-931, Arizona Revised Statutes, is amended to  
39 read:

40 43-931. Change of accounting period; computation of income;  
41 due date of return

42 ~~A. If a taxpayer, with the approval of the department, changes the~~  
43 ~~basis of computing taxable income from fiscal year to calendar year, a~~  
44 ~~separate return shall be made for the period between the close of the last~~  
45 ~~fiscal year for which return was made and the following December 31. If~~

1 ~~the change is from calendar year to fiscal year, a separate return shall~~  
2 ~~be made for the period between the close of the last calendar year for~~  
3 ~~which return was made and the date designated as the close of the fiscal~~  
4 ~~year. If the change is from one fiscal year to another fiscal year a~~  
5 ~~separate return shall be made for the period between the close of the~~  
6 ~~former fiscal year and the date designated as the close of the new fiscal~~  
7 ~~year.~~

8 ~~B.~~ If a separate return is made under ~~subsection A~~ SECTION 443 OF  
9 THE INTERNAL REVENUE CODE on account of a change in the accounting period,  
10 and in all other cases ~~where~~ IN WHICH a separate return is required or  
11 permitted by TREASURY regulations ~~prescribed by the department~~ to be made  
12 for a fractional part of a year, the income shall be computed on the basis  
13 of the period for which the separate return is made. The due date of the  
14 separate return for ~~such~~ THE period is the fifteenth day of the fourth  
15 month following the close of ~~such~~ THAT period unless the short period  
16 return is due to a change in ownership of a corporation, in which case the  
17 due date shall be determined pursuant to ~~26 Code of Federal Regulations~~  
18 ~~section 1.1502-76~~ TREASURY REGULATIONS.

19 Sec. 27. Repeal

20 Sections 43-932 and 43-933, Arizona Revised Statutes, are repealed.

21 Sec. 28. Renumber

22 Section 43-934, Arizona Revised Statutes, is renumbered as a new  
23 section 43-932.

24 Sec. 29. Section 43-1021, Arizona Revised Statutes, is amended to  
25 read:

26 43-1021. Addition to Arizona gross income

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

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

32 2. An amount equal to the ordinary income portion of a lump sum  
33 distribution that was excluded from federal adjusted gross income pursuant  
34 to the special rule for individuals who attained fifty years of age before  
35 January 1, 1986 under Public Law 99-514, section 1122(h)(3).

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

43 4. The excess of a partner's share of partnership taxable income  
44 required to be included under chapter 14, article 2 of this title over the

1 income required to be reported under section 702(a)(8) of the internal  
2 revenue code.

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

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

9 7. The amount by which the depreciation or amortization computed  
10 under the internal revenue code with respect to property for which a  
11 credit was taken under section 43-1080 exceeds the amount of depreciation  
12 or amortization computed pursuant to the internal revenue code on the  
13 Arizona adjusted basis of the property.

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

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

24 10. The amount by which the adjusted basis computed under the  
25 internal revenue code with respect to property for which a credit was  
26 claimed under section 43-1074.02, 43-1081 or 43-1081.01 and that is sold  
27 or otherwise disposed of during the taxable year exceeds the adjusted  
28 basis of the property computed under section 43-1074.02, 43-1081 or  
29 43-1081.01, as applicable.

30 11. The deduction referred to in section 1341(a)(4) of the internal  
31 revenue code for restoration of a substantial amount held under a claim of  
32 right.

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

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

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

44 ~~15. With respect to property for which an expense deduction was~~  
45 ~~taken pursuant to section 179 of the internal revenue code in a taxable~~

1 ~~year beginning before January 1, 2013, the amount in excess of twenty-five~~  
2 ~~thousand dollars.~~

3 ~~16.~~ 15. The amount of a nonqualified withdrawal, as defined in  
4 section 15-1871, from a college savings plan established pursuant to  
5 section 529 of the internal revenue code that is made to a distributee to  
6 the extent the amount is not included in computing federal adjusted gross  
7 income, except that the amount added under this paragraph shall not exceed  
8 the difference between the amount subtracted under section 43-1022 in  
9 prior taxable years and the amount added under this section in any prior  
10 taxable years.

11 ~~17.~~ 16. The amount of discharge of indebtedness income that is  
12 deferred and excluded from the computation of federal adjusted gross  
13 income in the current taxable year pursuant to section 108(i) of the  
14 internal revenue code as added by section 1231 of the American recovery  
15 and reinvestment act of 2009 (P.L. 111-5).

16 ~~18.~~ 17. The amount of any previously deferred original issue  
17 discount that was deducted in computing federal adjusted gross income in  
18 the current year pursuant to section 108(i) of the internal revenue code  
19 as added by section 1231 of the American recovery and reinvestment act of  
20 2009 (P.L. 111-5), to the extent that the amount was previously subtracted  
21 from Arizona gross income pursuant to section 43-1022, paragraph ~~23~~ 22.

22 ~~19.~~ 18. Amounts that are considered to be income under section  
23 43-1032, subsection D because the amount is withdrawn from a long-term  
24 health care savings account and not used to pay the taxpayer's long-term  
25 health care expenses.

26 ~~20.~~ 19. If a subtraction is or has been taken by the taxpayer  
27 under section 43-1024, in the current or a prior taxable year for the full  
28 amount of eligible access expenditures paid or incurred to comply with the  
29 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)  
30 or title 41, chapter 9, article 8, any amount of eligible access  
31 expenditures that is recognized under the internal revenue code, including  
32 any amount that is amortized according to federal amortization schedules,  
33 and that is included in computing taxable income for the current taxable  
34 year.

35 ~~21.~~ 20. For taxable years beginning from and after December 31,  
36 2017, the amount of any net capital loss included in Arizona gross income  
37 for the taxable year that is derived from the exchange of one kind of  
38 legal tender for another kind of legal tender. For the purposes of this  
39 paragraph:

40 (a) "Legal tender" means a medium of exchange, including specie,  
41 that is authorized by the United States Constitution or Congress for the  
42 payment of debts, public charges, taxes and dues.

43 (b) "Specie" means coins having precious metal content.

1           Sec. 30. Section 43-1022, Arizona Revised Statutes, is amended to  
2 read:

3           43-1022. Subtractions from Arizona gross income

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

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

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

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

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

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

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

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

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

34           7. The amount allowed by section 43-1025 for contributions during  
35 the taxable year of agricultural crops to charitable organizations.

36           8. The portion of any wages or salaries paid or incurred by the  
37 taxpayer for the taxable year that is equal to the amount of the federal  
38 work opportunity credit, the empowerment zone employment credit, the  
39 credit for employer paid social security taxes on employee cash tips and  
40 the Indian employment credit that the taxpayer received under sections  
41 45A, 45B, 51(a) and 1396 of the internal revenue code.

42           9. The amount of prizes or winnings less than five thousand dollars  
43 in a single taxable year from any of the state lotteries established and  
44 operated pursuant to title 5, chapter 5.1, article 1.

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

7           11. The amount included in federal adjusted gross income pursuant  
8 to section 86 of the internal revenue code, relating to taxation of social  
9 security and railroad retirement benefits.

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

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

24           14. The amount authorized by section 43-1027 for the taxable year  
25 relating to qualified wood stoves, wood fireplaces or gas fired  
26 fireplaces.

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

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

35           17. Any item of income resulting from an installment sale that has  
36 been properly subjected to income tax in another state in a previous  
37 taxable year and that is included in Arizona gross income in the current  
38 taxable year.

39           18. The amount authorized by section 43-1030 relating to holocaust  
40 survivors.

41           19. For property placed in service:

42           (a) In taxable years beginning before December 31, 2012, an amount  
43 equal to the depreciation allowable pursuant to section 167(a) of the  
44 internal revenue code for the taxable year computed as if the election  
45 described in section 168(k)(2)(D)(iii) of the internal revenue code had

1 been made for each applicable class of property in the year the property  
2 was placed in service.

3 (b) In taxable years beginning from and after December 31, 2012  
4 through December 31, 2013, an amount determined in the year the asset was  
5 placed in service based on the calculation in subdivision (a) of this  
6 paragraph. In the first taxable year beginning from and after December  
7 31, 2013, the taxpayer may elect to subtract the amount necessary to make  
8 the depreciation claimed to date for the purposes of this title the same  
9 as it would have been if subdivision (c) of this paragraph had applied for  
10 the entire time the asset was in service. Subdivision (c) of this  
11 paragraph applies for the remainder of the asset's life. If the taxpayer  
12 does not make the election under this subdivision, subdivision (a) of this  
13 paragraph applies for the remainder of the asset's life.

14 (c) In taxable years beginning from and after December 31, 2013  
15 through December 31, 2015, an amount equal to the depreciation allowable  
16 pursuant to section 167(a) of the internal revenue code for the taxable  
17 year as computed as if the additional allowance for depreciation had been  
18 ten percent of the amount allowed pursuant to section 168(k) of the  
19 internal revenue code.

20 (d) In taxable years beginning from and after December 31, 2015  
21 through December 31, 2016, an amount equal to the depreciation allowable  
22 pursuant to section 167(a) of the internal revenue code for the taxable  
23 year as computed as if the additional allowance for depreciation had been  
24 fifty-five percent of the amount allowed pursuant to section 168(k) of the  
25 internal revenue code.

26 (e) In taxable years beginning from and after December 31, 2016, an  
27 amount equal to the depreciation allowable pursuant to section 167(a) of  
28 the internal revenue code for the taxable year as computed as if the  
29 additional allowance for depreciation had been the full amount allowed  
30 pursuant to section 168(k) of the internal revenue code.

31 20. With respect to property that is sold or otherwise disposed of  
32 during the taxable year by a taxpayer that complied with section 43-1021,  
33 paragraph 14 with respect to that property, the amount of depreciation  
34 that has been allowed pursuant to section 167(a) of the internal revenue  
35 code to the extent that the amount has not already reduced Arizona taxable  
36 income in the current or prior taxable years.

37 ~~21. With respect to property for which an adjustment was made under~~  
38 ~~section 43-1021, paragraph 15, an amount equal to one-fifth of the amount~~  
39 ~~of the adjustment pursuant to section 43-1021, paragraph 15 in the year in~~  
40 ~~which the amount was adjusted under section 43-1021, paragraph 15 and in~~  
41 ~~each of the following four years.~~

42 ~~22.~~ 21. The amount contributed during the taxable year to college  
43 savings plans established pursuant to section 529 of the internal revenue  
44 code to the extent that the contributions were not deducted in computing  
45 federal adjusted gross income. The amount subtracted shall not exceed:

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

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

8 ~~23.~~ 22. The amount of any original issue discount that was  
9 deferred and not allowed to be deducted in computing federal adjusted  
10 gross income in the current taxable year pursuant to section 108(i) of the  
11 internal revenue code as added by section 1231 of the American recovery  
12 and reinvestment act of 2009 (P.L. 111-5).

13 ~~24.~~ 23. The amount of previously deferred discharge of  
14 indebtedness income that is included in the computation of federal  
15 adjusted gross income in the current taxable year pursuant to section  
16 108(i) of the internal revenue code as added by section 1231 of the  
17 American recovery and reinvestment act of 2009 (P.L. 111-5), to the extent  
18 that the amount was previously added to Arizona gross income pursuant to  
19 section 43-1021, paragraph ~~17~~ 16.

20 ~~25.~~ 24. The portion of the net operating loss carryforward that  
21 would have been allowed as a deduction in the current year pursuant to  
22 section 172 of the internal revenue code if the election described in  
23 section 172(b)(1)(H) of the internal revenue code had not been made in the  
24 year of the loss that exceeds the actual net operating loss carryforward  
25 that was deducted in arriving at federal adjusted gross income. This  
26 subtraction only applies to taxpayers who made an election under section  
27 172(b)(1)(H) of the internal revenue code as amended by section 1211 of  
28 the American recovery and reinvestment act of 2009 (P.L. 111-5) or as  
29 amended by section 13 of the worker, homeownership, and business  
30 assistance act of 2009 (P.L. 111-92).

31 ~~26.~~ 25. For taxable years beginning from and after December 31,  
32 2013, the amount of any net capital gain included in federal adjusted  
33 gross income for the taxable year derived from investment in a qualified  
34 small business as determined by the Arizona commerce authority pursuant to  
35 section 41-1518.

36 ~~27.~~ 26. An amount of any net long-term capital gain included in  
37 federal adjusted gross income for the taxable year that is derived from an  
38 investment in an asset acquired after December 31, 2011, as follows:

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

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

1 (c) For taxable years beginning from and after December 31, 2014,  
2 twenty-five percent of the net long-term capital gain included in federal  
3 adjusted gross income. For the purposes of this paragraph, a transferee  
4 that receives an asset by gift or at the death of a transferor is  
5 considered to have acquired the asset when the asset was acquired by the  
6 transferor. If the date an asset is acquired cannot be verified, a  
7 subtraction under this paragraph is not allowed.

8 ~~26.~~ 27. If an individual is not claiming itemized deductions  
9 pursuant to section 43-1042, the amount of premium costs for long-term  
10 care insurance, as defined in section 20-1691.

11 ~~29.~~ 28. With respect to a long-term health care savings account  
12 established pursuant to section 43-1032, the amount deposited by the  
13 taxpayer in the account during the taxable year to the extent that the  
14 taxpayer's contributions are included in the taxpayer's federal adjusted  
15 gross income.

16 ~~30.~~ 29. The amount of eligible access expenditures paid or  
17 incurred during the taxable year to comply with the requirements of the  
18 Americans with disabilities act of 1990 (P.L. 101-336) or title 41,  
19 chapter 9, article 8 as provided by section 43-1024.

20 ~~31.~~ 30. For taxable years beginning from and after December 31,  
21 2017, the amount of any net capital gain included in Arizona gross income  
22 for the taxable year that is derived from the exchange of one kind of  
23 legal tender for another kind of legal tender. For the purposes of this  
24 paragraph:

25 (a) "Legal tender" means a medium of exchange, including specie,  
26 that is authorized by the United States Constitution or Congress for the  
27 payment of debts, public charges, taxes and dues.

28 (b) "Specie" means coins having precious metal content.

29 Sec. 31. Section 43-1024, Arizona Revised Statutes, is amended to  
30 read:

31 43-1024. Americans with disabilities act access expenditures

32 A. For taxable years beginning from and after December 31, 2017, in  
33 computing Arizona adjusted gross income, a subtraction is allowed under  
34 section 43-1022, paragraph ~~30~~ 29 for eligible business access expenditures  
35 paid or incurred by the taxpayer during the taxable year in order to  
36 comply with the requirements of the Americans with disabilities act of  
37 1990 (P.L. 101-336) or title 41, chapter 9, article 8 by retrofitting  
38 developed real property that was originally placed in service at least ten  
39 years before the current taxable year.

40 B. For the purposes of this section, eligible business access  
41 expenditures Include reasonable and necessary amounts paid or incurred to:

42 1. Remove any barriers that prevent a business from being  
43 accessible to or usable by individuals with disabilities.

44 2. Provide qualified interpreters or other methods of making audio  
45 materials available to hearing-impaired individuals.

1           3. Provide qualified readers, taped texts and other effective  
2 methods of making visually delivered materials available to individuals  
3 with visual impairments.

4           4. Acquire or modify equipment or devices for individuals with  
5 disabilities.

6           5. Provide other similar services, modifications, materials or  
7 equipment.

8           C. A taxpayer who has been cited for noncompliance with the  
9 Americans with disabilities act of 1990 or title 41, chapter 9, article 8  
10 by either federal or state enforcement officials is ineligible for a  
11 subtraction under this section for any expenditure required to cure the  
12 cited violation.

13           Sec. 32. Section 43-1043, Arizona Revised Statutes, is amended to  
14 read:

15           43-1043. Personal exemptions; annual adjustment

16           A. For taxable years ~~prior to~~ BEFORE 2017, there shall be allowed  
17 as an exemption, in the case of:

18           1. A single individual, a personal exemption of two thousand one  
19 hundred dollars.

20           2. A head of a household or a married individual, a personal  
21 exemption of four thousand two hundred dollars under this paragraph. A  
22 husband and wife shall receive but one personal exemption of four thousand  
23 two hundred dollars. If the husband and wife make separate returns, the  
24 personal exemption may be taken by either or divided between them.

25           3. A married couple who claim at least one dependent, an exemption  
26 of six thousand three hundred dollars. If the husband and wife make  
27 separate returns, the personal exemption may be taken by either or divided  
28 between them. An exemption under this paragraph is in lieu of the  
29 exemption under paragraph 2 of this subsection.

30           B. For taxable years beginning from and after December 31, 2016  
31 through December 31, 2017, there is allowed as an exemption, in the case  
32 of:

33           1. A single individual, a personal exemption of two thousand one  
34 hundred fifty dollars.

35           2. A head of a household or a married individual, a personal  
36 exemption of four thousand three hundred dollars under this paragraph. A  
37 husband and wife shall receive but one personal exemption of four thousand  
38 three hundred dollars. If the husband and wife make separate returns, the  
39 personal exemption may be taken by either or divided between them.

40           3. A married couple who claim at least one dependent, an exemption  
41 of six thousand four hundred fifty dollars. If the husband and wife make  
42 separate returns, the personal exemption may be taken by either or divided  
43 between them. An exemption under this paragraph is in lieu of the  
44 exemption under paragraph 2 of this subsection.

1 C. For taxable years beginning from and after December 31, 2017  
2 through December 31, 2018, there is allowed as an exemption, in the case  
3 of:

4 1. A single individual, a personal exemption of two thousand two  
5 hundred dollars.

6 2. A head of a household or a married individual, a personal  
7 exemption of four thousand four hundred dollars under this paragraph. A  
8 husband and wife shall receive but one personal exemption of four thousand  
9 four hundred dollars. If the husband and wife make separate returns, the  
10 personal exemption may be taken by either or divided between them.

11 3. A married couple who claim at least one dependent, an exemption  
12 of six thousand six hundred dollars. If the husband and wife make  
13 separate returns, the personal exemption may be taken by either or divided  
14 between them. An exemption under this paragraph is in lieu of the  
15 exemption under paragraph 2 of this subsection.

16 D. For taxable years beginning from and after December 31, 2018,  
17 the department shall adjust the dollar amounts prescribed for each of the  
18 exemptions in subsection C of this section according to the average annual  
19 change in the metropolitan Phoenix consumer price index published by the  
20 United States bureau of labor statistics. **THE REVISED DOLLAR AMOUNTS  
21 SHALL BE RAISED TO THE NEAREST WHOLE DOLLAR. THE DESIGNATED DOLLAR  
22 AMOUNTS MAY NOT BE REVISED BELOW THE AMOUNTS ALLOWED BY THE PERSONAL  
23 EXEMPTION IN THE PRIOR TAXABLE YEAR.**

24 Sec. 33. Section 43-1074, Arizona Revised Statutes, is amended to  
25 read:

26 **43-1074. Credit for new employment**

27 A. For taxable years beginning from and after June 30, 2011, a  
28 credit is allowed against the taxes imposed by this title for net  
29 increases in full-time employees residing in this state and hired in  
30 qualified employment positions in this state as computed and certified by  
31 the Arizona commerce authority pursuant to section 41-1525.

32 B. Subject to subsection F of this section, the amount of the  
33 credit is equal to:

34 1. Three thousand dollars for each full-time employee hired in a  
35 qualified employment position in the first year or partial year of  
36 employment. Employees hired in the last ninety days of the taxable year  
37 are excluded for that taxable year and are considered to be new employees  
38 in the following taxable year.

39 2. Three thousand dollars for each full-time employee in a  
40 qualified employment position for the full taxable year in the second year  
41 of continuous employment.

42 3. Three thousand dollars for each full-time employee in a  
43 qualified employment position for the full taxable year in the third year  
44 of continuous employment.

1 C. The capital investment and the new qualified employment  
2 positions requirements of section 41-1525, subsection B must be  
3 accomplished within twelve months after the start of the required capital  
4 investment. ~~NO~~ A credit may NOT be claimed until both requirements are  
5 met. A business that meets the requirements of section 41-1525,  
6 subsection B for a location is eligible to claim first year credits for  
7 three years beginning with the taxable year in which those requirements  
8 are completed. Employees hired at the location before the beginning of  
9 the taxable year but during the twelve-month period allowed in this  
10 subsection are considered to be new employees for the taxable year in  
11 which all of those requirements are completed. The employees that are  
12 considered to be new employees for the taxable year under this subsection  
13 shall not be included in the average number of full-time employees during  
14 the immediately preceding taxable year until the taxable year in which all  
15 of the requirements of section 41-1525, subsection B are completed. An  
16 employee working at a temporary ~~work site~~ WORKSITE in this state while the  
17 designated location is under construction is considered to be working at  
18 the designated location if all of the following occur:

19 1. The employee is hired after the start of the required investment  
20 at the designated location.

21 2. The employee is hired to work at the designated location after  
22 it is completed.

23 3. The payroll for the employees destined for the designated  
24 location is segregated from other employees.

25 4. The employee is moved to the designated location within thirty  
26 days after its completion.

27 D. To qualify for a credit under this section, the taxpayer and the  
28 employment positions must meet the requirements prescribed by section  
29 41-1525.

30 E. A credit is allowed for employment in the second and third year  
31 only for qualified employment positions for which a credit was claimed and  
32 allowed in the first year.

33 F. The net increase in the number of qualified employment positions  
34 is the lesser of the total number of filled qualified employment positions  
35 created at the designated location or locations during the taxable year or  
36 the difference between the average number of full-time employees in this  
37 state in the current taxable year and the average number of full-time  
38 employees in this state during the immediately preceding taxable year.  
39 The net increase in the number of qualified employment positions computed  
40 under this subsection may not exceed the difference between the average  
41 number of full-time employees in this state in the current taxable year  
42 and the average number of full-time employees in this state during the  
43 immediately preceding taxable year.

1 ~~G. A taxpayer who claims a credit under section 43-1079 or~~  
2 ~~43-1083.01 shall not claim a credit under this section with respect to the~~  
3 ~~same employment positions.~~

4 ~~H.~~ G. If the allowable tax credit exceeds the income taxes  
5 otherwise due on the claimant's income, or if there are no state income  
6 taxes due on the claimant's income, the amount of the claim not used as an  
7 offset against the income taxes may be carried forward as a tax credit  
8 against subsequent years' income tax liability for a period not exceeding  
9 five taxable years.

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

17 ~~J.~~ I. If the business is sold or changes ownership through  
18 reorganization, stock purchase or merger, the new taxpayer may claim first  
19 year credits only for the qualified employment positions that it created  
20 and filled with an eligible employee after the purchase or reorganization  
21 was complete. If a person purchases a taxpayer that had qualified for  
22 first or second year credits or changes ownership through reorganization,  
23 stock purchase or merger, the new taxpayer may claim the second or third  
24 year credits if it meets other eligibility requirements of this section.  
25 Credits for which a taxpayer qualified before the changes described in  
26 this subsection are terminated and lost at the time the changes are  
27 implemented.

28 ~~K.~~ J. A failure to timely report and certify to the Arizona  
29 commerce authority the information prescribed by section 41-1525,  
30 subsection E, and in the manner prescribed by section 41-1525, subsection  
31 F disqualifies the taxpayer from the credit under this section. The  
32 department shall require written evidence of the timely report to the  
33 Arizona commerce authority.

34 ~~L.~~ K. A tax credit under this section is subject to recovery for a  
35 violation described in section 41-1525, subsection H.

36 ~~M.~~ L. For the purposes of subsection B, paragraphs 2 and 3 of this  
37 section, if a full-time employee in the qualified employment position  
38 leaves during the taxable year, the employee may be replaced with another  
39 new full-time employee in the same employment position and the new  
40 employee will be treated as being in ~~their~~ THE EMPLOYEE'S second or third  
41 full year of continuous employment for the purposes of the credit under  
42 this section if:

43 1. The total time the position was vacant from the date the  
44 employment position was originally filled to the end of the current tax  
45 year totals ninety days or less.

1           2. The new employee meets all of the same requirements as the  
2 original employee was required to meet.

3           Sec. 34. Section 43-1074.01, Arizona Revised Statutes, is amended  
4 to read:

5           43-1074.01. Credit for increased research activities

6           A. A credit is allowed against the taxes imposed by this title in  
7 an amount determined pursuant to section 41 of the internal revenue code,  
8 except that:

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

13           (a) If the excess is two million five hundred thousand dollars or  
14 less:

15           (i) For taxable years ~~through December 31, 2017, the credit is~~  
16 ~~equal to twenty percent of that amount.~~

17           ~~(ii) For taxable years beginning from and after December 31, 2017~~  
18 ~~through~~ BEGINNING BEFORE December 31, 2021, the credit is equal to  
19 twenty-four percent of that amount.

20           ~~(iii)~~ (ii) For taxable years beginning from and after December 31,  
21 2021, the credit is equal to twenty percent of that amount.

22           (b) If the excess is over two million five hundred thousand  
23 dollars:

24           (i) For taxable years ~~through December 31, 2017, the credit is~~  
25 ~~equal to five hundred thousand dollars plus eleven percent of any amount~~  
26 ~~exceeding two million five hundred thousand dollars.~~

27           ~~(ii) For taxable years beginning from and after December 31, 2017,~~  
28 ~~through~~ BEGINNING BEFORE December 31, 2021, the credit is equal to six  
29 hundred thousand dollars plus fifteen percent of any amount exceeding two  
30 million five hundred thousand dollars.

31           ~~(iii)~~ (ii) For taxable years beginning from and after December 31,  
32 2021, the credit is equal to five hundred thousand dollars plus eleven  
33 percent of any amount exceeding two million five hundred thousand dollars.

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

1 placement established by the date that the taxpayer filed the application.  
2 For taxable years beginning from and after December 31, 2014, any basic  
3 research payments used to determine the additional credit under this  
4 subdivision must first receive certification from the Arizona commerce  
5 authority pursuant to section 41-1507.01. The additional credit amount  
6 under this subdivision shall not exceed the amount allowed based on actual  
7 basic research payments or the department's certification, whichever is  
8 less. If an application, if certified in full, would exceed the ten  
9 million dollar limit, the department shall certify only an amount within  
10 that limit. After the limit is attained, the department shall deny any  
11 subsequent applications regardless of whether other certified amounts are  
12 not actually claimed as a credit or other taxpayers fail to qualify to  
13 actually claim certified amounts. Notwithstanding subsections B and C of  
14 this section, any amount of the additional credit under this subdivision  
15 that exceeds the taxes otherwise due under this title is not refundable,  
16 but may be carried forward to the next five consecutive taxable years.  
17 For the purposes of this subdivision, "basic research payments" and  
18 "qualified organization base period amount" have the same meanings  
19 prescribed by section 41(e) of the internal revenue code without regard to  
20 whether the taxpayer is or is not a corporation.

21 2. Qualified research includes only research conducted in this  
22 state, including research conducted at a university in this state and paid  
23 for by the taxpayer.

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

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

30 5. The termination provisions of section 41 of the internal revenue  
31 code do not apply.

32 B. Except as provided by subsection C of this section, if the  
33 allowable credit under this section exceeds the taxes otherwise due under  
34 this title on the claimant's income, or if there are no taxes due under  
35 this title, the amount of the credit not used to offset taxes may be  
36 carried forward to the next fifteen consecutive taxable years. The amount  
37 of credit carryforward from taxable years beginning from and after  
38 December 31, 2000 through December 31, 2002 that may be used in any  
39 taxable year may not exceed the taxpayer's tax liability under this title  
40 or five hundred thousand dollars, whichever is less, minus the credit  
41 under this section for the current taxable year's qualified research  
42 expenses. The amount of credit carryforward from taxable years beginning  
43 from and after December 31, 2002 that may be used in any taxable year may  
44 not exceed the taxpayer's tax liability under this title minus the credit  
45 under this section for the current taxable year's qualified research

1 expenses. A taxpayer who carries forward any amount of credit under this  
2 subsection may not thereafter claim a refund of any amount of the credit  
3 under subsection C of this section.

4 C. For taxable years beginning from and after December 31, 2009, if  
5 a taxpayer who claims a credit under this section employs fewer than one  
6 hundred fifty persons in the taxpayer's trade or business and if the  
7 allowable credit under this section exceeds the taxes otherwise due under  
8 this title on the claimant's income, or if there are no taxes due under  
9 this title, in lieu of carrying the excess amount of credit forward to  
10 subsequent taxable years under subsection B of this section, the taxpayer  
11 may elect to receive a refund as follows:

12 1. The taxpayer must apply to the Arizona commerce authority for  
13 qualification for the refund pursuant to section 41-1507 and submit a copy  
14 of the authority's certificate of qualification to the department of  
15 revenue with the taxpayer's income tax return.

16 2. The amount of the refund is limited to seventy-five percent of  
17 the amount by which the allowable credit under this section exceeds the  
18 taxpayer's tax liability under this title for the taxable year. The  
19 remainder of the excess amount of the credit is waived.

20 3. The refund shall be paid in the manner prescribed by section  
21 42-1118.

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

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

26 ~~D. A taxpayer that claims a credit for increased research and~~  
27 ~~development activity under this section shall not claim a credit under~~  
28 ~~section 43-1085.01 for the same expenses.~~

29 Sec. 35. Section 43-1076, Arizona Revised Statutes, is amended to  
30 read:

31 43-1076. Credit for employment by a healthy forest enterprise

32 A. ~~In addition to the credit allowed by section 43-1076.01,~~ For  
33 taxable years beginning from and after December 31, 2004 through December  
34 31, 2024, a credit is allowed against the taxes imposed by this title for  
35 net increases in qualified employment positions by a qualified business  
36 that is certified by the Arizona commerce authority as a healthy forest  
37 enterprise pursuant to section 41-1516.

38 B. Subject to subsection E of this section, the amount of the  
39 credit is equal to:

40 1. One-fourth of the taxable wages paid to an employee in a  
41 qualified employment position, not to exceed five hundred dollars per  
42 qualified employment position, in the first year or partial year of  
43 employment.

44 2. One-third of the taxable wages paid to an employee in a  
45 qualified employment position, not to exceed one thousand dollars per

1 qualified employment position, in the second year of continuous  
2 employment.

3 3. One-half of the taxable wages paid to an employee in a qualified  
4 employment position, not to exceed one thousand five hundred dollars per  
5 qualified employment position, in the third year of continuous employment.

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

7 1. The business must employ at least one new full-time employee in  
8 a qualified employment position in the first taxable year in which the  
9 credit is claimed.

10 2. Each employee with respect to whom a credit is claimed must  
11 reside in this state on the date of hire.

12 3. A qualified employment position must meet all of the following  
13 requirements:

14 (a) The position must be full-time employment for a minimum of one  
15 thousand five hundred fifty hours per year, unless a shorter period of  
16 employment is due to forest closures or weather conditions beyond the  
17 taxpayer's control.

18 (b) The job duties must primarily involve or directly support  
19 harvesting, transporting or processing qualifying forest products removed  
20 from qualifying projects as defined in section 41-1516 into a product  
21 having commercial value.

22 (c) The employer must pay compensation at least equal to the wage  
23 offer by county as computed annually by the department of economic  
24 security research administration division.

25 (d) The employee must have been employed for at least ninety days  
26 during the first taxable year. An employee who is hired during the last  
27 ninety days of the taxable year shall be considered a new employee during  
28 the next taxable year. A qualified employment position that is filled  
29 during the last ninety days of the taxable year is considered to be a new  
30 qualified employment position for the next taxable year.

31 (e) The employee has not been previously employed by the taxpayer  
32 within twelve months before the current date of hire.

33 4. The employer shall provide health insurance coverage for  
34 employees as follows:

35 (a) The employer shall pay:

36 (i) At least twenty-five ~~per cent~~ PERCENT of the premium or  
37 membership cost of the insurance program in the third year the taxpayer  
38 claims a credit under this section. If the taxpayer is self-insured, the  
39 taxpayer must pay at least twenty-five ~~per cent~~ PERCENT of a predetermined  
40 fixed cost per employee for an insurance program that is payable whether  
41 or not the employee has filed claims.

42 (ii) At least forty ~~per cent~~ PERCENT of the premium or membership  
43 cost in the fourth year the taxpayer claims a credit under this section.  
44 If the taxpayer is self-insured, the taxpayer must pay at least forty ~~per~~

1 ~~cent~~ PERCENT of a predetermined fixed cost per employee for an insurance  
2 program that is payable whether or not the employee has filed claims.

3 (iii) At least fifty ~~per cent~~ PERCENT of the premium or membership  
4 cost of the insurance program in the fifth and each subsequent year the  
5 taxpayer claims a credit under this section. If the taxpayer is  
6 self-insured, the taxpayer must pay at least fifty ~~per cent~~ PERCENT of a  
7 predetermined fixed cost per employee for an insurance program that is  
8 payable whether or not the employee has filed claims.

9 (b) An employer shall not reduce the amount of health insurance  
10 coverage provided to employees before certification by the Arizona  
11 commerce authority.

12 D. A credit is allowed for employment in the second and third year  
13 only for qualified employment positions for which a credit was allowed and  
14 claimed by the taxpayer on the original first and second year tax returns.

15 E. The net increase in the number of qualified employment positions  
16 is the lesser of the total number of filled qualified employment positions  
17 created during the taxable year or the difference between the average  
18 number of full-time employees in the current taxable year and the average  
19 number of full-time employees during the immediately preceding taxable  
20 year. The net increase in the number of qualified employment positions  
21 computed under this subsection may not exceed two hundred qualified  
22 employment positions per taxpayer each year.

23 F. A taxpayer who claims a credit under section 43-1074 ~~or 43-1079~~  
24 may not claim a credit under this section with respect to the same  
25 employees.

26 G. If the allowable tax credit exceeds the income taxes otherwise  
27 due on the claimant's income, or if there are no state income taxes due on  
28 the claimant's income, the amount of the claim not used as an offset  
29 against income taxes may be carried forward as a tax credit against  
30 subsequent years' income tax liability for the period not to exceed five  
31 taxable years, provided the business maintains its certification under  
32 section 41-1516.

33 H. Co-owners of a business, including partners in a partnership and  
34 shareholders of an S corporation as defined in section 1361 of the  
35 internal revenue code, may each claim only the pro rata share of the  
36 credit allowed under this section based on the ownership interest. The  
37 total of the credits allowed all such owners of the business may not  
38 exceed the amount that would have been allowed for a sole owner of the  
39 business.

40 I. If a qualified business changes ownership through  
41 reorganization, stock purchase or merger, the new taxpayer may claim first  
42 year credits only for one or more qualified employment positions that it  
43 created and filled with an eligible employee after the purchase or  
44 reorganization was complete. If a person purchases a business that had  
45 qualified for first or second year credits or changes ownership through

1 reorganization, stock purchase or merger, the new taxpayer may claim the  
2 second or third year credits if it meets the other eligibility  
3 requirements of this section. Credits for which a taxpayer qualified  
4 before the changes described in this subsection are terminated and lost at  
5 the time the changes are implemented.

6 J. If, within five taxable years after first receiving a credit  
7 pursuant to this section, the certification of qualification of a business  
8 is terminated or revoked under section 41-1516 other than for reasons  
9 beyond the control of the business as determined by the Arizona commerce  
10 authority, the credits allowed the business pursuant to this section are  
11 subject to recapture pursuant to this subsection. This subsection applies  
12 only in the case of the termination or revocation of a certification of  
13 qualification. This subsection does not apply if, in any taxable year, a  
14 taxpayer otherwise does not qualify for or fails to claim the credit under  
15 this section. The recapture of credits under this subsection is computed  
16 by increasing the amount of taxes imposed in the year following the year  
17 in which the qualification of the business was terminated or revoked by an  
18 amount determined by multiplying the full amount of all credits previously  
19 allowed under this section by a percentage determined as follows:

20 1. If the initial credit under this section was allowed for the  
21 taxable year immediately preceding the taxable year in which the  
22 certification of qualification of a business is terminated or revoked, one  
23 hundred ~~per cent~~ PERCENT.

24 2. If the initial credit under this section was allowed two taxable  
25 years before the taxable year in which the certification of qualification  
26 of a business is terminated or revoked, eighty ~~per cent~~ PERCENT.

27 3. If the initial credit under this section was allowed three  
28 taxable years before the taxable year in which the certification of  
29 qualification of a business is terminated or revoked, sixty ~~per~~  
30 ~~cent~~ PERCENT.

31 4. If the initial credit under this section was allowed four  
32 taxable years before the taxable year in which the certification of  
33 qualification of a business is terminated or revoked, forty ~~per cent~~  
34 PERCENT.

35 5. If the initial credit under this section was allowed five  
36 taxable years before the taxable year in which the certification of  
37 qualification of a business is terminated or revoked, twenty ~~per cent~~  
38 PERCENT.

39 Sec. 36. Section 43-1083, Arizona Revised Statutes, is amended to  
40 read:

41 43-1083. Credit for solar energy devices

42 A. A credit is allowed against the taxes imposed by this title for  
43 each resident who is not a dependent of another taxpayer for installing a  
44 solar energy device, as defined in section 42-5001, during the taxable

1 year in the taxpayer's residence located in this state. The credit is  
2 equal to twenty-five ~~per cent~~ PERCENT of the cost of the device.

3 B. The maximum credit in a taxable year may not exceed one thousand  
4 dollars. The person who provides the solar energy device shall furnish  
5 the taxpayer with an accounting of the cost to the taxpayer. A taxpayer  
6 may claim the credit under this section only once in a tax year and may  
7 not cumulate over different tax years tax credits under this section  
8 exceeding, in the aggregate, one thousand dollars for the same residence.

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

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

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

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

23 G. A solar hot water heater plumbing stub out that was installed by  
24 the builder of a house or dwelling unit before title was conveyed to the  
25 taxpayer does not qualify for a credit under this section, ~~but the~~  
26 ~~taxpayer may claim a credit for the device under section 43-1090 or~~  
27 ~~43-1176 under the circumstances, conditions and limitations prescribed by~~  
28 ~~section 43-1090, subsection C or 43-1176, subsection C, as applicable.~~

29 Sec. 37. Section 43-1083.03, Arizona Revised Statutes, is amended  
30 to read:

31 43-1083.03. Credit for qualified facilities

32 A. For taxable years beginning from and after December 31, 2012  
33 through December 31, 2022, a credit is allowed against the taxes imposed  
34 by this title for qualifying investment and employment in expanding or  
35 locating a qualified facility in this state. To qualify for the credit,  
36 after June 30, 2012 the taxpayer must invest in a new qualified facility  
37 or expand an existing qualified facility in this state and produce new  
38 full-time employment positions where the job duties are performed at the  
39 location of the qualifying investment. The taxpayer must meet the  
40 employee compensation and employee health benefit requirements prescribed  
41 by section 41-1512.

42 B. The amount of the credit is computed as follows:

43 1. Ten percent of the lesser of:

44 (a) The total qualifying investment in the qualified facility.

1 (b) Two hundred thousand dollars for each net new full-time  
2 employment position at the qualified facility.

3 2. The amount of the credit shall not exceed the postapproval  
4 amount determined by the Arizona commerce authority under section 41-1512,  
5 subsection P.

6 3. Subject to subsections G and J of this section:

7 (a) The credit amount computed under paragraph 1 of this subsection  
8 is apportioned, and the taxpayer shall claim the credit in five equal  
9 annual installments in each of five consecutive taxable years.

10 (b) The taxpayer may claim all five annual installments of a credit  
11 that was preapproved before January 1, 2023 by the Arizona commerce  
12 authority notwithstanding any intervening repeal or other termination of  
13 the credit.

14 C. To claim the credit the taxpayer must:

15 1. Conduct a business that qualifies under section 41-1512.

16 2. Receive preapproval and postapproval from the Arizona commerce  
17 authority pursuant to section 41-1512.

18 3. Submit to the department a copy of a current and valid  
19 certification of qualification issued to the taxpayer by the Arizona  
20 commerce authority.

21 D. To be counted for the purposes of the credit, an employee must  
22 have been employed at the qualified facility for at least ninety days  
23 during the taxable year in a permanent full-time employment position of at  
24 least one thousand seven hundred fifty hours per year. An employee who is  
25 hired during the last ninety days of the taxable year shall be considered  
26 a new employee during the next taxable year. To be counted for the  
27 purposes of the credit during the first taxable year of employment, the  
28 employee must not have been previously employed by the taxpayer within  
29 twelve months before the current date of hire. The terms of employment  
30 must comply in all cases with the requirements of section 41-1512 and be  
31 certified by the Arizona commerce authority.

32 E. Co-owners of a business, including partners in a partnership,  
33 members of a limited liability company and shareholders of an  
34 S corporation, as defined in section 1361 of the internal revenue code,  
35 may each claim only the pro rata share of the credit allowed under this  
36 section based on the ownership interest. The total of the credits allowed  
37 all owners of the business may not exceed the amount that would have been  
38 allowed for a sole owner of the business.

39 F. If the allowable tax credit for a taxable year exceeds the  
40 income taxes otherwise due on the claimant's income, or if there are no  
41 state income taxes due on the claimant's income, the amount of the claim  
42 not used as an offset against income taxes shall be paid to the taxpayer  
43 in the same manner as a refund under section 42-1118. Refunds made  
44 pursuant to this subsection are subject to setoff under section 42-1122.  
45 If the department determines that a refund is incorrect or invalid, the

1 excess refund may be treated as a tax deficiency pursuant to section  
2 42-1108.

3 G. Except as provided by subsection H of this section, if, within  
4 five taxable years after first receiving a credit pursuant to this  
5 section, the certification of qualification of a business is terminated or  
6 revoked under section 41-1512, other than for reasons beyond the control  
7 of the business as determined by the Arizona commerce authority, the  
8 taxpayer is disqualified from credits under this section in subsequent  
9 taxable years. On a determination that the taxpayer has committed fraud  
10 or relocated outside of this state within five taxable years after first  
11 receiving a credit pursuant to this section, the credits allowed the  
12 taxpayer in all taxable years pursuant to this section are subject to  
13 recapture pursuant to this subsection. This subsection applies only in  
14 the case of the termination or revocation of a certification of  
15 qualification under section 41-1512. This subsection does not apply if,  
16 in any taxable year, a taxpayer otherwise does not qualify for or fails to  
17 claim the credit under this section. The recapture of credits is computed  
18 by increasing the amount of taxes imposed in the year following the year  
19 of termination or revocation by the full amount of all credits previously  
20 allowed under this section.

21 H. A taxpayer who claims a credit under section 43-1074, ~~43-1079 or~~  
22 ~~43-1083.01~~ may not claim a credit under this section with respect to the  
23 same full-time employment positions.

24 I. The department of revenue shall adopt rules and prescribe forms  
25 and procedures as necessary for the purposes of this section. The  
26 department of revenue and the Arizona commerce authority shall collaborate  
27 in adopting rules as necessary to avoid duplication and contradictory  
28 requirements while accomplishing the intent and purposes of this section.

29 J. Each taxable year after the postapproval of the credit under  
30 section 41-1512, subsection P, when the taxpayer files the taxpayer's  
31 income tax return, the taxpayer shall:

32 1. Notify the department, on a form prescribed by the department,  
33 of any full-time employment position for which a credit was claimed under  
34 this section and that was vacant for more than one hundred fifty days from  
35 the date the full-time employment position was originally filled to the  
36 end of that taxable year. The period that a full-time employment position  
37 was vacant may not include the period before the full-time employment  
38 position was filled for the first time.

39 2. Reduce the portion of the credit claimed for the taxable year  
40 pursuant to subsection B, paragraph 3 of this section by four thousand  
41 dollars for each full-time employment position reported pursuant to  
42 paragraph 1 of this subsection.

1           Sec. 38. Section 43-1121, Arizona Revised Statutes, is amended to  
2 read:

3           43-1121. Additions to Arizona gross income; corporations

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

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

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

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

20           4. The amount of any depreciation allowance allowed pursuant to  
21 section 167(a) of the internal revenue code to the extent not previously  
22 added.

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

27           ~~6.~~ 5. The amount of discharge of indebtedness income that is  
28 deferred and excluded from the computation of federal taxable income in  
29 the current taxable year pursuant to section 108(i) of the internal  
30 revenue code as added by section 1231 of the American recovery and  
31 reinvestment act of 2009 (P.L. 111-5).

32           ~~7.~~ 6. The amount of any previously deferred original issue  
33 discount that was deducted in computing federal taxable income in the  
34 current year pursuant to section 108(i) of the internal revenue code as  
35 added by section 1231 of the American recovery and reinvestment act of  
36 2009 (P.L. 111-5), to the extent that the amount was previously subtracted  
37 from Arizona gross income pursuant to section 43-1122, paragraph ~~7~~ 6.

38           ~~8.~~ 7. The amount of dividend income received from corporations and  
39 allowed as a deduction pursuant to sections 243, ~~244~~ and 245 of the  
40 internal revenue code.

41           ~~9.~~ 8. Taxes that are based on income paid to states, local  
42 governments or foreign governments and that were deducted in computing  
43 federal taxable income.

44           ~~10.~~ 9. Expenses and interest relating to tax-exempt income on  
45 indebtedness incurred or continued to purchase or carry obligations the

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

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

17 ~~12.~~ 11. The amount of net operating loss taken pursuant to section  
18 172 of the internal revenue code.

19 ~~13.~~ 12. The amount of exploration expenses determined pursuant to  
20 section 617 of the internal revenue code to the extent that they exceed  
21 seventy-five thousand dollars and to the extent that the election is made  
22 to defer those expenses not in excess of seventy-five thousand dollars.

23 ~~14.~~ 13. Amortization of costs incurred to install pollution control  
24 devices and deducted pursuant to the internal revenue code or the amount  
25 of deduction for depreciation taken pursuant to the internal revenue code  
26 on pollution control devices for which an election is made pursuant to  
27 section 43-1129.

28 ~~15.~~ 14. The amount of depreciation or amortization of costs of  
29 child care facilities deducted pursuant to section 167 or 188 of the  
30 internal revenue code for which an election is made to amortize pursuant  
31 to section 43-1130.

32 ~~16.~~ 15. The loss of an insurance company that is exempt under  
33 section 43-1201 to the extent that it is included in computing Arizona  
34 gross income on a consolidated return pursuant to section 43-947.

35 ~~17.~~ 16. The amount by which the depreciation or amortization  
36 computed under the internal revenue code with respect to property for  
37 which a credit was taken under section 43-1169 exceeds the amount of  
38 depreciation or amortization computed pursuant to the internal revenue  
39 code on the Arizona adjusted basis of the property.

40 ~~18.~~ 17. The amount by which the adjusted basis computed under the  
41 internal revenue code with respect to property for which a credit was  
42 claimed under section 43-1169 and that is sold or otherwise disposed of  
43 during the taxable year exceeds the adjusted basis of the property  
44 computed under section 43-1169.

1       ~~19.~~ 18. The amount by which the depreciation or amortization  
2 computed under the internal revenue code with respect to property for  
3 which a credit was taken under either section 43-1170 or 43-1170.01  
4 exceeds the amount of depreciation or amortization computed pursuant to  
5 the internal revenue code on the Arizona adjusted basis of the property.

6       ~~20.~~ 19. The amount by which the adjusted basis computed under the  
7 internal revenue code with respect to property for which a credit was  
8 claimed under either section 43-1170 or 43-1170.01 and that is sold or  
9 otherwise disposed of during the taxable year exceeds the adjusted basis  
10 of the property computed under section 43-1170 or 43-1170.01, as  
11 applicable.

12       ~~21.~~ 20. The deduction referred to in section 1341(a)(4) of the  
13 internal revenue code for restoration of a substantial amount held under a  
14 claim of right.

15       ~~22.~~ 21. The amount by which a capital loss carryover allowable  
16 pursuant to section 1341(b)(5) of the internal revenue code exceeds the  
17 capital loss carryover allowable pursuant to section 43-1130.01,  
18 subsection F.

19       ~~23.~~ 22. Any wage expenses deducted pursuant to the internal revenue  
20 code for which a credit is claimed under section 43-1175 and representing  
21 net increases in qualified employment positions for employment of  
22 temporary assistance for needy families recipients.

23       ~~24.~~ 23. Any amount of expenses that were deducted pursuant to the  
24 internal revenue code and for which a credit is claimed under section  
25 43-1178.

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

29       ~~26.~~ 25. Any amount deducted pursuant to section 170 of the internal  
30 revenue code representing contributions to a school tuition organization  
31 for which a credit is claimed under section 43-1183 or 43-1184.

32       ~~27.~~ 26. If a subtraction is or has been taken by the taxpayer under  
33 section 43-1124, in the current or a prior taxable year for the full  
34 amount of eligible access expenditures paid or incurred to comply with the  
35 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)  
36 or title 41, chapter 9, article 8, any amount of eligible access  
37 expenditures that is recognized under the internal revenue code, including  
38 any amount that is amortized according to federal amortization schedules,  
39 and that is included in computing Arizona taxable income for the current  
40 taxable year.

41       ~~28.~~ 27. For taxable years beginning from and after December 31,  
42 2017, the amount of any net capital loss included in Arizona gross income  
43 for the taxable year that is derived from the exchange of one kind of  
44 legal tender for another kind of legal tender. For the purposes of this  
45 paragraph:

1 (a) "Legal tender" means a medium of exchange, including specie,  
2 that is authorized by the United States Constitution or Congress for the  
3 payment of debts, public charges, taxes and dues.

4 (b) "Specie" means coins having precious metal content.

5 Sec. 39. Section 43-1122, Arizona Revised Statutes, is amended to  
6 read:

7 43-1122. Subtractions from Arizona gross income; corporations

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

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

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

16 3. The amount allowed by section 43-1025 for contributions during  
17 the taxable year of agricultural crops to charitable organizations.

18 4. The portion of any wages or salaries paid or incurred by the  
19 taxpayer for the taxable year that is equal to the amount of the federal  
20 work opportunity credit, the empowerment zone employment credit, the  
21 credit for employer paid social security taxes on employee cash tips and  
22 the Indian employment credit that the taxpayer received under sections  
23 45A, 45B, 51(a) and 1396 of the internal revenue code.

24 5. With respect to property that is sold or otherwise disposed of  
25 during the taxable year by a taxpayer that complied with section 43-1121,  
26 paragraph 4 with respect to that property, the amount of depreciation that  
27 has been allowed pursuant to section 167(a) of the internal revenue code  
28 to the extent that the amount has not already reduced Arizona taxable  
29 income in the current taxable year or prior taxable years.

30 ~~6. With respect to property for which an adjustment was made under~~  
31 ~~section 43-1121, paragraph 5, an amount equal to one-fifth of the amount~~  
32 ~~of the adjustment pursuant to section 43-1121, paragraph 5 in the year in~~  
33 ~~which the amount was adjusted under section 43-1121, paragraph 5 and in~~  
34 ~~each of the following four years.~~

35 ~~7.~~ 6. The amount of any original issue discount that was deferred  
36 and not allowed to be deducted in computing federal taxable income in the  
37 current taxable year pursuant to section 108(i) of the internal revenue  
38 code as added by section 1231 of the American recovery and reinvestment  
39 act of 2009 (P.L. 111-5).

40 ~~8.~~ 7. The amount of previously deferred discharge of indebtedness  
41 income that is included in the computation of federal taxable income in  
42 the current taxable year pursuant to section 108(i) of the internal  
43 revenue code as added by section 1231 of the American recovery and  
44 reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was

1 previously added to Arizona gross income pursuant to section 43-1121,  
2 paragraph ~~6~~ 5.  
3 ~~9~~ 8. With respect to a financial institution as defined in  
4 section 6-101, expenses and interest relating to tax-exempt income  
5 disallowed pursuant to section 265 of the internal revenue code.  
6 ~~10~~ 9. Dividends received from another corporation owned or  
7 controlled directly or indirectly by a recipient corporation. For the  
8 purposes of this paragraph, "control" means direct or indirect ownership  
9 or control of fifty percent or more of the voting stock of the payor  
10 corporation by the recipient corporation. Dividends shall have the  
11 meaning provided in section 316 of the internal revenue code. This  
12 subtraction shall apply without regard to section 43-961, paragraph 2 and  
13 article 4 of this chapter.  
14 ~~11~~ 10. Interest income received on obligations of the United  
15 States.  
16 ~~12~~ 11. The amount of dividend income from foreign corporations.  
17 ~~13~~ 12. The amount of net operating loss allowed by section  
18 43-1123.  
19 ~~14~~ 13. The amount of any state income tax refunds received that  
20 were included as income in computing federal taxable income.  
21 ~~15~~ 14. The amount of expense recapture included in income  
22 pursuant to section 617 of the internal revenue code for mine exploration  
23 expenses.  
24 ~~16~~ 15. The amount of deferred exploration expenses allowed by  
25 section 43-1127.  
26 ~~17~~ 16. The amount of exploration expenses related to the  
27 exploration of oil, gas or geothermal resources, computed in the same  
28 manner and on the same basis as a deduction for mine exploration pursuant  
29 to section 617 of the internal revenue code. This computation is subject  
30 to the adjustments contained in section 43-1121, paragraph ~~13~~ 12 and  
31 paragraphs ~~15~~ 14 and ~~16~~ 15 of this section relating to exploration  
32 expenses.  
33 ~~18~~ 17. The amortization of pollution control devices allowed by  
34 section 43-1129.  
35 ~~19~~ 18. The amount of amortization of the cost of child care  
36 facilities pursuant to section 43-1130.  
37 ~~20~~ 19. The amount of income from a domestic international sales  
38 corporation required to be included in the income of its shareholders  
39 pursuant to section 995 of the internal revenue code.  
40 ~~21~~ 20. The income of an insurance company that is exempt under  
41 section 43-1201 to the extent that it is included in computing Arizona  
42 gross income on a consolidated return pursuant to section 43-947.  
43 ~~22~~ 21. The amount by which a capital loss carryover allowable  
44 pursuant to section 43-1130.01, subsection F exceeds the capital loss

1 carryover allowable pursuant to section 1341(b)(5) of the internal revenue  
2 code.

3 ~~23.~~ 22. An amount equal to the depreciation allowable pursuant to  
4 section 167(a) of the internal revenue code for the taxable year computed  
5 as if the election described in section ~~168(k)(2)(D)(iii)~~ 168(k)(7) of the  
6 internal revenue code had been made for each applicable class of property  
7 in the year the property was placed in service.

8 ~~24.~~ 23. The amount of eligible access expenditures paid or  
9 incurred during the taxable year to comply with the requirements of the  
10 Americans with disabilities act of 1990 (P.L. 101-336) or title 41,  
11 chapter 9, article 8 as provided by section 43-1124.

12 ~~25.~~ 24. For taxable years beginning from and after December 31,  
13 2017, the amount of any net capital gain included in Arizona gross income  
14 for the taxable year that is derived from the exchange of one kind of  
15 legal tender for another kind of legal tender. For the purposes of this  
16 paragraph:

17 (a) "Legal tender" means a medium of exchange, including specie,  
18 that is authorized by the United States Constitution or Congress for the  
19 payment of debts, public charges, taxes and dues.

20 (b) "Specie" means coins having precious metal content.

21 Sec. 40. Section 43-1123, Arizona Revised Statutes, is amended to  
22 read:

23 43-1123. Net operating loss; definition

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

25 1. In the case of a taxpayer who has a net operating loss for the  
26 taxable year within the meaning of section 172(c) of the internal revenue  
27 code, the amount of the net operating loss increased by the subtractions  
28 specified in section 43-1122, except the subtraction allowed in section  
29 43-1122, paragraph ~~13~~ 12, and reduced by the additions specified in  
30 section 43-1121.

31 2. In the case of a taxpayer not described in paragraph 1 of this  
32 subsection, any excess of the subtractions specified in section 43-1122,  
33 except the subtraction allowed in section 43-1122, paragraph ~~13~~ 12, over  
34 the sum of the Arizona gross income plus the additions specified in  
35 section 43-1121.

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

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

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

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

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

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

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

8 Sec. 41. Section 43-1124, Arizona Revised Statutes, is amended to  
9 read:

10 43-1124. Americans with disabilities act access expenditures

11 A. For taxable years beginning from and after December 31, 2017, in  
12 computing Arizona taxable income, a subtraction is allowed under section  
13 43-1122, paragraph ~~24~~ 23 for eligible business access expenditures paid or  
14 incurred by the taxpayer during the taxable year in order to comply with  
15 the requirements of the Americans with disabilities act of 1990  
16 (P.L. 101-336) or title 41, chapter 9, article 8 by retrofitting developed  
17 real property that was originally placed in service at least ten years  
18 before the current taxable year.

19 B. For the purposes of this section, eligible business access  
20 expenditures include reasonable and necessary amounts paid or incurred to:

21 1. Remove any barriers that prevent a business from being  
22 accessible to or usable by individuals with disabilities.

23 2. Provide qualified interpreters or other methods of making audio  
24 materials available to hearing-impaired individuals.

25 3. Provide qualified readers, taped texts and other effective  
26 methods of making visually delivered materials available to individuals  
27 with visual impairments.

28 4. Acquire or modify equipment or devices for individuals with  
29 disabilities.

30 5. Provide other similar services, modifications, materials or  
31 equipment.

32 C. A taxpayer that has been cited for noncompliance with the  
33 Americans with disabilities act of 1990 or title 41, chapter 9, article 8  
34 by either federal or state enforcement officials is ineligible for a  
35 subtraction under this section for any expenditure required to cure the  
36 cited violation.

37 Sec. 42. Section 43-1127, Arizona Revised Statutes, is amended to  
38 read:

39 43-1127. Deferred exploration expenses

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

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

3           43-1130.01. Restoration of a substantial amount held under  
4                                   claim of right; computation of tax

5           A. This section applies if:

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

9           2. A deduction would be allowable under the internal revenue code  
10 or this title for the taxable year, without application of section  
11 1341(b)(3) of the internal revenue code or section 43-1121, paragraph ~~21~~  
12 20, because after the close of the prior taxable year or years it was  
13 established that the taxpayer did not have an unrestricted right to all or  
14 part of the item.

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

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

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

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

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

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

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

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

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

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

7           (b) ~~No~~ A carryover beyond the taxable year may ~~NOT~~ be taken into  
8 account.

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

12           (a) The loss shall be:

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

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

19           (b) ~~No~~ A carryover beyond the taxable year may ~~NOT~~ be taken into  
20 account.

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

26           Sec. 44. Section 43-1161, Arizona Revised Statutes, is amended to  
27 read:

28           43-1161. Credit for new employment

29           A. For taxable years beginning from and after June 30, 2011, a  
30 credit is allowed against the taxes imposed by this title for net  
31 increases in full-time employees residing in this state and hired in  
32 qualified employment positions in this state as computed and certified by  
33 the Arizona commerce authority pursuant to section 41-1525.

34           B. Subject to subsection F of this section, the amount of the  
35 credit is equal to:

36           1. Three thousand dollars for each full-time employee hired in a  
37 qualified employment position in the first year or partial year of  
38 employment. Employees hired in the last ninety days of the taxable year  
39 are excluded for that taxable year and are considered to be new employees  
40 in the following taxable year.

41           2. Three thousand dollars for each full-time employee in a  
42 qualified employment position for the full taxable year in the second year  
43 of continuous employment.

1           3. Three thousand dollars for each full-time employee in a  
2 qualified employment position for the full taxable year in the third year  
3 of continuous employment.

4           C. The capital investment and the new qualified employment  
5 positions requirements of section 41-1525, subsection B must be  
6 accomplished within twelve months after the start of the required capital  
7 investment. ~~No~~ A credit may NOT be claimed until both requirements are  
8 met. A business that meets the requirements of section 41-1525,  
9 subsection B for a location is eligible to claim first year credits for  
10 three years beginning with the taxable year in which those requirements  
11 are completed. Employees hired at the location before the beginning of  
12 the taxable year but during the twelve-month period allowed in this  
13 subsection are considered to be new employees for the taxable year in  
14 which all of those requirements are completed. The employees that are  
15 considered to be new employees for the taxable year under this subsection  
16 shall not be included in the average number of full-time employees during  
17 the immediately preceding taxable year until the taxable year in which all  
18 of the requirements of section 41-1525, subsection B are completed. An  
19 employee working at a temporary ~~work site~~ WORKSITE in this state while the  
20 designated location is under construction is considered to be working at  
21 the designated location if all of the following occur:

22           1. The employee is hired after the start of the required investment  
23 at the designated location.

24           2. The employee is hired to work at the designated location after  
25 it is completed.

26           3. The payroll for the employees destined for the designated  
27 location is segregated from other employees.

28           4. The employee is moved to the designated location within thirty  
29 days after its completion.

30           D. To qualify for a credit under this section, the taxpayer and the  
31 employment positions must meet the requirements prescribed by section  
32 41-1525.

33           E. A credit is allowed for employment in the second and third year  
34 only for qualified employment positions for which a credit was claimed and  
35 allowed in the first year.

36           F. The net increase in the number of qualified employment positions  
37 is the lesser of the total number of filled qualified employment positions  
38 created at the designated location or locations during the taxable year or  
39 the difference between the average number of full-time employees in this  
40 state in the current taxable year and the average number of full-time  
41 employees in this state during the immediately preceding taxable year.  
42 The net increase in the number of qualified employment positions computed  
43 under this subsection may not exceed the difference between the average  
44 number of full-time employees in this state in the current taxable year

1 and the average number of full-time employees in this state during the  
2 immediately preceding taxable year.

3 ~~G. A taxpayer that claims a credit under section 43-1164.01 or~~  
4 ~~43-1167 shall not claim a credit under this section with respect to the~~  
5 ~~same employment positions.~~

6 ~~H.~~ G. If the allowable tax credit exceeds the income taxes  
7 otherwise due on the claimant's income, or if there are no state income  
8 taxes due on the claimant's income, the amount of the claim not used as an  
9 offset against the income taxes may be carried forward as a tax credit  
10 against subsequent years' income tax liability for a period not exceeding  
11 five taxable years.

12 ~~I.~~ H. Co-owners of a business, including corporate partners in a  
13 partnership, may each claim only the pro rata share of the credit allowed  
14 under this section based on the ownership interest. The total of the  
15 credits allowed all such owners of the business may not exceed the amount  
16 that would have been allowed for a sole owner of the business.

17 ~~J.~~ I. If the business is sold or changes ownership through  
18 reorganization, stock purchase or merger, the new taxpayer may claim first  
19 year credits only for the qualified employment positions that it created  
20 and filled with an eligible employee after the purchase or reorganization  
21 was complete. If a person purchases a taxpayer that had qualified for  
22 first or second year credits or changes ownership through reorganization,  
23 stock purchase or merger, the new taxpayer may claim the second or third  
24 year credits if it meets other eligibility requirements of this section.  
25 Credits for which a taxpayer qualified before the changes described in  
26 this subsection are terminated and lost at the time the changes are  
27 implemented.

28 ~~K.~~ J. A failure to timely report and certify to the Arizona  
29 commerce authority the information prescribed by section 41-1525,  
30 subsection E, and in the manner prescribed by section 41-1525, subsection  
31 F disqualifies the taxpayer from the credit under this section. The  
32 department shall require written evidence of the timely report to the  
33 Arizona commerce authority.

34 ~~L.~~ K. A tax credit under this section is subject to recovery for a  
35 violation described in section 41-1525, subsection H.

36 ~~M.~~ L. For the purposes of subsection B, paragraphs 2 and 3 of this  
37 section, if a full-time employee in the qualified employment position  
38 leaves during the taxable year, the employee may be replaced with another  
39 new full-time employee in the same employment position and the new  
40 employee will be treated as being in ~~their~~ THE EMPLOYEE'S second or third  
41 full year of continuous employment for the purposes of the credit under  
42 this section if:

43 1. The total time the position was vacant from the date the  
44 employment position was originally filled to the end of the current tax  
45 year totals ninety days or less.

1           2. The new employee meets all of the same requirements as the  
2 original employee was required to meet.

3           Sec. 45. Section 43-1162, Arizona Revised Statutes, is amended to  
4 read:

5           43-1162. Credit for employment by a healthy forest enterprise

6           A. For taxable years beginning from and after December 31, 2004  
7 through December 31, 2024, a credit is allowed against the taxes imposed  
8 by this title for net increases in qualified employment positions by a  
9 qualified business that is certified by the Arizona commerce authority as  
10 a healthy forest enterprise pursuant to section 41-1516.

11           B. Subject to subsection E of this section, the amount of the  
12 credit is equal to:

13           1. One-fourth of the taxable wages paid to an employee in a  
14 qualified employment position, not to exceed five hundred dollars per  
15 qualified employment position, in the first year or partial year of  
16 employment.

17           2. One-third of the taxable wages paid to an employee in a  
18 qualified employment position, not to exceed one thousand dollars per  
19 qualified employment position, in the second year of continuous  
20 employment.

21           3. One-half of the taxable wages paid to an employee in a qualified  
22 employment position, not to exceed one thousand five hundred dollars per  
23 qualified employment position, in the third year of continuous employment.

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

25           1. The business must employ at least one new full-time employee in  
26 a qualified employment position in the first taxable year in which the  
27 credit is claimed.

28           2. Each employee with respect to whom a credit is claimed must  
29 reside in this state on the date of hire.

30           3. A qualified employment position must meet all of the following  
31 requirements:

32           (a) The position must be full-time employment for a minimum of one  
33 thousand five hundred fifty hours per year, unless a shorter period of  
34 employment is due to forest closures or weather conditions beyond the  
35 taxpayer's control.

36           (b) The job duties must primarily involve or directly support  
37 harvesting, transporting or processing qualifying forest products removed  
38 from qualifying projects as defined in section 41-1516 into a product  
39 having commercial value.

40           (c) The employer must pay compensation at least equal to the wage  
41 offer by county as computed annually by the department of economic  
42 security research administration division.

43           (d) The employee must have been employed for at least ninety days  
44 during the first taxable year. An employee who is hired during the last  
45 ninety days of the taxable year shall be considered a new employee during

1 the next taxable year. A qualified employment position that is filled  
2 during the last ninety days of the taxable year is considered to be a new  
3 qualified employment position for the next taxable year.

4 (e) The employee has not been previously employed by the taxpayer  
5 within twelve months before the current date of hire.

6 4. The employer shall provide health insurance coverage for  
7 employees as follows:

8 (a) The employer shall pay:

9 (i) At least twenty-five ~~per cent~~ PERCENT of the premium or  
10 membership cost of the insurance program in the third year the taxpayer  
11 claims a credit under this section. If the taxpayer is self-insured, the  
12 taxpayer must pay at least twenty-five ~~per cent~~ PERCENT of a predetermined  
13 fixed cost per employee for an insurance program that is payable whether  
14 or not the employee has filed claims.

15 (ii) At least forty ~~per cent~~ PERCENT of the premium or membership  
16 cost in the fourth year the taxpayer claims a credit under this section.  
17 If the taxpayer is self-insured, the taxpayer must pay at least forty ~~per~~  
18 ~~cent~~ PERCENT of a predetermined fixed cost per employee for an insurance  
19 program that is payable whether or not the employee has filed claims.

20 (iii) At least fifty ~~per cent~~ PERCENT of the premium or membership  
21 cost of the insurance program in the fifth and each subsequent year the  
22 taxpayer claims a credit under this section. If the taxpayer is  
23 self-insured, the taxpayer must pay at least fifty ~~per cent~~ PERCENT of a  
24 predetermined fixed cost per employee for an insurance program that is  
25 payable whether or not the employee has filed claims.

26 (b) An employer shall not reduce the amount of health insurance  
27 coverage provided to employees before certification by the Arizona  
28 commerce authority.

29 D. A credit is allowed for employment in the second and third year  
30 only for qualified employment positions for which a credit was allowed and  
31 claimed by the taxpayer on the original first and second year tax returns.

32 E. The net increase in the number of qualified employment positions  
33 is the lesser of the total number of filled qualified employment positions  
34 created during the taxable year or the difference between the average  
35 number of full-time employees in the current taxable year and the average  
36 number of full-time employees during the immediately preceding taxable  
37 year. The net increase in the number of qualified employment positions  
38 computed under this subsection may not exceed two hundred qualified  
39 employment positions per taxpayer each year.

40 F. A taxpayer who claims a credit under section 43-1161 ~~or 43-1167~~  
41 may not claim a credit under this section with respect to the same  
42 employees.

43 G. If the allowable tax credit exceeds the income taxes otherwise  
44 due on the claimant's income, or if there are no state income taxes due on  
45 the claimant's income, the amount of the claim not used as an offset

1 against income taxes may be carried forward as a tax credit against  
2 subsequent years' income tax liability for the period not to exceed five  
3 taxable years, provided the business maintains its certification under  
4 section 41-1516.

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

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

21 J. If, within five taxable years after first receiving a credit  
22 pursuant to this section, the certification of qualification of a business  
23 is terminated or revoked under section 41-1516 other than for reasons  
24 beyond the control of the business as determined by the Arizona commerce  
25 authority, the credits allowed the business pursuant to this section are  
26 subject to recapture pursuant to this subsection. This subsection applies  
27 only in the case of the termination or revocation of a certification of  
28 qualification. This subsection does not apply if, in any taxable year, a  
29 taxpayer otherwise does not qualify for or fails to claim the credit under  
30 this section. The recapture of credits under this subsection is computed  
31 by increasing the amount of taxes imposed in the year following the year  
32 in which the qualification of the business was terminated or revoked by an  
33 amount determined by multiplying the full amount of all credits previously  
34 allowed under this section by a percentage determined as follows:

35 1. If the initial credit under this section was allowed for the  
36 taxable year immediately preceding the taxable year in which the  
37 certification of qualification of a business is terminated or revoked, one  
38 hundred ~~per cent~~ PERCENT.

39 2. If the initial credit under this section was allowed two taxable  
40 years before the taxable year in which the certification of qualification  
41 of a business is terminated or revoked, eighty ~~per cent~~ PERCENT.

42 3. If the initial credit under this section was allowed three  
43 taxable years before the taxable year in which the certification of  
44 qualification of a business is terminated or revoked, sixty ~~per cent~~  
45 PERCENT.

1           4. If the initial credit under this section was allowed four  
2 taxable years before the taxable year in which the certification of  
3 qualification of a business is terminated or revoked, forty ~~per cent~~  
4 PERCENT.

5           5. If the initial credit under this section was allowed five  
6 taxable years before the taxable year in which the certification of  
7 qualification of a business is terminated or revoked, twenty ~~per cent~~  
8 PERCENT.

9           Sec. 46. Section 43-1164.04, Arizona Revised Statutes, is amended  
10 to read:

11           43-1164.04. Credit for qualified facilities

12           A. For taxable years beginning from and after December 31, 2012  
13 through December 31, 2022, a credit is allowed against the taxes imposed  
14 by this title for qualifying investment and employment in expanding or  
15 locating a qualified facility in this state. To qualify for the credit,  
16 after June 30, 2012 the taxpayer must invest in a new qualified facility  
17 or expand an existing qualified facility in this state and produce new  
18 full-time employment positions where the job duties are performed at the  
19 location of the qualifying investment. The taxpayer must meet the  
20 employee compensation and employee health benefit requirements prescribed  
21 by section 41-1512.

22           B. The amount of the credit is computed as follows:

23           1. Ten percent of the lesser of:

24           (a) The total qualifying investment in the qualified facility.

25           (b) Two hundred thousand dollars for each net new full-time  
26 employment position at the qualified facility.

27           2. The amount of the credit shall not exceed the postapproval  
28 amount determined by the Arizona commerce authority under section 41-1512,  
29 subsection P.

30           3. Subject to subsections G and J of this section:

31           (a) The credit amount computed under paragraph 1 of this subsection  
32 is apportioned, and the taxpayer shall claim the credit in five equal  
33 annual installments in each of five consecutive taxable years.

34           (b) The taxpayer may claim all five annual installments of a credit  
35 that was preapproved before January 1, 2023 by the Arizona commerce  
36 authority notwithstanding any intervening repeal or other termination of  
37 the credit.

38           C. To claim the credit the taxpayer must:

39           1. Conduct a business that qualifies under section 41-1512.

40           2. Receive preapproval and postapproval from the Arizona commerce  
41 authority pursuant to section 41-1512.

42           3. Submit to the department a copy of a current and valid  
43 certification of qualification issued to the taxpayer by the Arizona  
44 commerce authority.

1           D. To be counted for the purposes of the credit, an employee must  
2 have been employed at the qualified facility for at least ninety days  
3 during the taxable year in a permanent full-time employment position of at  
4 least one thousand seven hundred fifty hours per year. An employee who is  
5 hired during the last ninety days of the taxable year shall be considered  
6 a new employee during the next taxable year. To be counted for the  
7 purposes of the credit during the first taxable year of employment, the  
8 employee must not have been previously employed by the taxpayer within  
9 twelve months before the current date of hire. The terms of employment  
10 must comply in all cases with the requirements of section 41-1512 and be  
11 certified by the Arizona commerce authority.

12           E. Co-owners of a business, including corporate partners in a  
13 partnership and members of a limited liability company, may each claim  
14 only the pro rata share of the credit allowed under this section based on  
15 the ownership interest. The total of the credits allowed all owners of  
16 the business may not exceed the amount that would have been allowed for a  
17 sole owner of the business.

18           F. If the allowable tax credit for a taxable year exceeds the  
19 income taxes otherwise due on the claimant's income, or if there are no  
20 state income taxes due on the claimant's income, the amount of the claim  
21 not used as an offset against income taxes shall be paid to the taxpayer  
22 in the same manner as a refund under section 42-1118. Refunds made  
23 pursuant to this subsection are subject to setoff under section 42-1122.  
24 If the department determines that a refund is incorrect or invalid, the  
25 excess refund may be treated as a tax deficiency pursuant to section  
26 42-1108.

27           G. Except as provided by subsection H of this section, if, within  
28 five taxable years after first receiving a credit pursuant to this  
29 section, the certification of qualification of a business is terminated or  
30 revoked under section 41-1512, other than for reasons beyond the control  
31 of the business as determined by the Arizona commerce authority, the  
32 taxpayer is disqualified from credits under this section in subsequent  
33 taxable years. On a determination that the taxpayer has committed fraud or  
34 relocated outside of this state within five taxable years after first  
35 receiving a credit pursuant to this section, the credits allowed the  
36 taxpayer in all taxable years pursuant to this section are subject to  
37 recapture pursuant to this subsection. This subsection applies only in  
38 the case of the termination or revocation of a certification of  
39 qualification under section 41-1512. This subsection does not apply if,  
40 in any taxable year, a taxpayer otherwise does not qualify for or fails to  
41 claim the credit under this section. The recapture of credits is computed  
42 by increasing the amount of taxes imposed in the year following the year  
43 of termination or revocation by the full amount of all credits previously  
44 allowed under this section.

1 H. A taxpayer who claims a credit under section 43-1161, ~~43-1164.01~~  
2 ~~or 43-1167~~ may not claim a credit under this section with respect to the  
3 same full-time employment positions.

4 I. The department of revenue shall adopt rules and prescribe forms  
5 and procedures as necessary for the purposes of this section. The  
6 department of revenue and the Arizona commerce authority shall collaborate  
7 in adopting rules as necessary to avoid duplication and contradictory  
8 requirements while accomplishing the intent and purposes of this section.

9 J. Each taxable year after the postapproval of the credit under  
10 section 41-1512, subsection P, when the taxpayer files the taxpayer's  
11 income tax return, the taxpayer shall:

12 1. Notify the department, on a form prescribed by the department,  
13 of any full-time employment position for which a credit was claimed under  
14 this section and that was vacant for more than one hundred fifty days from  
15 the date the full-time employment position was originally filled to the  
16 end of that taxable year. The period that a full-time employment position  
17 was vacant may not include the period before the full-time employment  
18 position was filled for the first time.

19 2. Reduce the portion of the credit claimed for the taxable year  
20 pursuant to subsection B, paragraph 3 of this section by four thousand  
21 dollars for each full-time employment position reported pursuant to  
22 paragraph 1 of this subsection.

23 Sec. 47. Section 43-1168, Arizona Revised Statutes, is amended to  
24 read:

25 43-1168. Credit for increased research activity

26 A. A credit is allowed against the taxes imposed by this title in  
27 an amount determined pursuant to section 41 of the internal revenue code,  
28 except that:

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

30 (a) Add:

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

34 (ii) The basic research payments determined under section  
35 41(e)(1)(A) of the internal revenue code.

36 (b) If the sum computed under subdivision (a) of this paragraph is  
37 two million five hundred thousand dollars or less:

38 (i) For taxable years ~~through December 31, 2017, the credit is~~  
39 ~~equal to twenty percent of that amount.~~

40 ~~(ii) For taxable years beginning from and after December 31, 2017~~  
41 ~~through~~ BEGINNING BEFORE December 31, 2021, the credit is equal to  
42 twenty-four percent of that amount.

43 ~~(iii)~~ (ii) For taxable years beginning from and after December 31,  
44 2021, the credit is equal to twenty percent of that amount.

1 (c) If the sum computed under subdivision (a) of this paragraph is  
2 over two million five hundred thousand dollars:

3 (i) For taxable years ~~through December 31, 2017, the credit is~~  
4 ~~equal to five hundred thousand dollars plus eleven percent of any amount~~  
5 ~~exceeding two million five hundred thousand dollars.~~

6 ~~(ii) For taxable years beginning from and after December 31, 2017,~~  
7 ~~through BEGINNING BEFORE~~ December 31, 2021, the credit is equal to six  
8 hundred thousand dollars plus fifteen percent of any amount exceeding two  
9 million five hundred thousand dollars.

10 ~~(iii)~~ (ii) For taxable years beginning from and after December 31,  
11 2021, the credit is equal to five hundred thousand dollars plus eleven  
12 percent of any amount exceeding two million five hundred thousand dollars.

13 (d) For taxable years beginning from and after December 31, 2011,  
14 an additional credit amount is allowed if the taxpayer made basic research  
15 payments during the taxable year to a university under the jurisdiction of  
16 the Arizona board of regents. The additional credit amount is equal to  
17 ten percent of the excess, if any, of the basic research payments over the  
18 qualified organization base period amount for the taxable year. The  
19 department shall not allow credit amounts under this subdivision and  
20 section 43-1074.01, subsection A, paragraph 1, subdivision (c) that  
21 exceed, in the aggregate, a combined total of ten million dollars in any  
22 calendar year. Subject to that limit, on application by the taxpayer, the  
23 department shall certify credit amounts under this subdivision and section  
24 43-1074.01, subsection A, paragraph 1, subdivision (c) based on priority  
25 placement established by the date that the taxpayer filed the application.  
26 For taxable years beginning from and after December 31, 2014, any basic  
27 research payments used to determine the additional credit under this  
28 subdivision must first receive certification from the Arizona commerce  
29 authority pursuant to section 41-1507.01. The additional credit amount  
30 under this subdivision shall not exceed the amount allowed based on actual  
31 basic research payments or the department's certification, whichever is  
32 less. If an application, if certified in full, would exceed the ten  
33 million dollar limit, the department shall certify only an amount within  
34 that limit. After the limit is attained, the department shall deny any  
35 subsequent applications regardless of whether other certified amounts are  
36 not actually claimed as a credit or other taxpayers fail to qualify to  
37 actually claim certified amounts. Notwithstanding subsections B and D of  
38 this section, any amount of the additional credit under this subdivision  
39 that exceeds the taxes otherwise due under this title is not refundable,  
40 but may be carried forward to the next five consecutive taxable years.  
41 For the purposes of this subdivision, "basic research payments" and  
42 "qualified organization base period amount" have the same meanings  
43 prescribed by section 41(e) of the internal revenue code.

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

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

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

9           5. The termination provisions of section 41 of the internal revenue  
10 code do not apply.

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

29           C. If a taxpayer has qualified research expenses that are carried  
30 forward from taxable years beginning before January 1, 2001, the amount of  
31 the expenses carried forward shall be converted to a credit carryforward  
32 by multiplying the amount of the qualified expenses carried forward by  
33 twenty percent. A credit carryforward determined under this subsection  
34 may be carried forward to not more than fifteen years from the year in  
35 which the expenses were incurred. The amount of credit carryforward from  
36 taxable years beginning before January 1, 2001 that may be used under this  
37 subsection in any taxable year may not exceed the taxpayer's tax liability  
38 under this title or five hundred thousand dollars, whichever is less,  
39 minus the credit under this section for the current taxable year's  
40 qualified research expenses. The total amount of credit carryforward from  
41 taxable years beginning before January 1, 2003 that may be used in any  
42 taxable year under subsection B and this subsection may not exceed the  
43 taxpayer's tax liability under this title or five hundred thousand  
44 dollars, whichever is less, minus the credit under this section for the  
45 current taxable year's qualified research expenses.

1 D. For taxable years beginning from and after December 31, 2009, if  
2 a taxpayer that claims a credit under this section employs fewer than one  
3 hundred fifty persons in the taxpayer's trade or business and if the  
4 allowable credit under this section exceeds the taxes otherwise due under  
5 this title on the claimant's income, or if there are no taxes due under  
6 this title, in lieu of carrying the excess amount of credit forward to  
7 subsequent taxable years under subsection B of this section, the taxpayer  
8 may elect to receive a refund as follows:

9 1. The taxpayer must apply to the Arizona commerce authority for  
10 qualification for the refund pursuant to section 41-1507 and submit a copy  
11 of the authority's certificate of qualification to the department of  
12 revenue with the taxpayer's income tax return.

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

17 3. The refund shall be paid in the manner prescribed by section  
18 42-1118.

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

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

23 ~~E. A taxpayer that claims a credit for increased research and  
24 development activity under this section shall not claim a credit under  
25 section 43-1164.02 for the same expenses.~~

26 Sec. 48. Section 43-1603, Arizona Revised Statutes, is amended to  
27 read:

28 43-1603. Operational requirements for school tuition  
29 organizations; notice; qualified schools

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

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

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

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

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



1 preschool program that offers services to students with disabilities at a  
2 governmental school for at least ninety days of the prior fiscal year and  
3 transferred from a governmental school to a qualified school.

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

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

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

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

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

24 Sec. 49. Conditional enactment

25 Section 42-2003, Arizona Revised Statutes, as amended by Laws 2017,  
26 chapter 96, section 1, chapter 139, section 4, chapter 258, section 43 and  
27 chapter 340, section 2 and this act, is effective only if Laws 2017,  
28 chapter 139, the subject of referendum petition R-02-2018, is approved by  
29 a vote of the people at the next general election or fails to be referred  
30 to the voters at the next general election.

APPROVED BY THE GOVERNOR MARCH 29, 2018.

FILED IN THE OFFICE OF THE SECRETARY OF STATE MARCH 29, 2018.