

REFERENCE TITLE: contractor TPT; solar energy exemption

State of Arizona
Senate
Fifty-third Legislature
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2017

SB 1334

Introduced by
Senator Borrelli

AN ACT

AMENDING SECTION 42-5075, ARIZONA REVISED STATUTES; RELATING TO CONTRACTOR
TRANSACTION PRIVILEGE TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5075, Arizona Revised Statutes, is amended to
3 read:

4 42-5075. Prime contracting classification; exemptions;
5 definitions

6 A. The prime contracting classification is comprised of the
7 business of prime contracting and the business of manufactured building
8 dealer. Sales for resale to another manufactured building dealer are not
9 subject to tax. Sales for resale do not include sales to a lessor of
10 manufactured buildings. The sale of a used manufactured building is not
11 taxable under this chapter.

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

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

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

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

27 4. The gross proceeds of sales or gross income received from a
28 contract entered into for the modification of any building, highway, road,
29 railroad, excavation, manufactured building or other structure, project,
30 development or improvement located in a military reuse zone for providing
31 aviation or aerospace services or for a manufacturer, assembler or
32 fabricator of aviation or aerospace products within an active military
33 reuse zone after the zone is initially established or renewed under
34 section 41-1531. To be eligible to qualify for this deduction, before
35 beginning work under the contract, the prime contractor must have applied
36 for a letter of qualification from the department of revenue.

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

1 6. The gross proceeds of sales or gross income from a contract to
2 provide for one or more of the following actions, or a contract for site
3 preparation, constructing, furnishing or installing machinery, equipment
4 or other tangible personal property, including structures necessary to
5 protect exempt incorporated materials or installed machinery or equipment,
6 and tangible personal property incorporated into the project, to perform
7 one or more of the following actions in response to a release or suspected
8 release of a hazardous substance, pollutant or contaminant from a facility
9 to the environment, unless the release was authorized by a permit issued
10 by a governmental authority:

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

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

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

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

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

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

30 7. The gross proceeds of sales or gross income that is derived from
31 a contract for the installation, assembly, repair or maintenance of
32 machinery, equipment or other tangible personal property that is either
33 deducted from the tax base of the retail classification under section
34 42-5061, subsection B or that is exempt from use tax under section
35 42-5159, subsection B and that has independent functional utility,
36 pursuant to the following provisions:

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

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

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

1 (iii) Any activity that is related to the activities described in
2 items (i) and (ii) of this subdivision, including inspecting the
3 installation of or testing the machinery, equipment or other tangible
4 personal property.

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

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

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

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

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

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

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

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

34 (a) Section 42-5061, subsection A, paragraph 25, 29, 57 or 59.

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

36 (c) Section 42-5159, subsection A, paragraph 13, subdivision (a),
37 (b), (c), (d), (e), (f), (j), (k), (m) or (n) or paragraph 54 or 56.

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

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

43 10. The gross proceeds of sales or gross income that is derived
44 from a contract entered into with a person who is engaged in the
45 commercial production of livestock, livestock products or agricultural,

1 horticultural, viticultural or floricultural crops or products in this
2 state for the modification of any building, highway, road, excavation,
3 manufactured building or other structure, project, development or
4 improvement used directly and primarily to prevent, monitor, control or
5 reduce air, water or land pollution.

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

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

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

24 14. The gross proceeds of sales or gross income derived from a
25 contract entered into for the construction of a launch site, as defined in
26 14 Code of Federal Regulations section 401.5.

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

31 16. The gross proceeds of sales or gross income derived from
32 contracts to perform postconstruction treatment of real property for
33 termite and general pest control, including ~~wood destroying~~
34 **WOOD-DESTROYING** organisms.

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

42 18. The gross proceeds of sales or gross income received from a
43 contract for the construction of any building, or other structure,
44 project, development or improvement owned by a qualified business under
45 section 41-1516 for harvesting or processing qualifying forest products

1 removed from qualifying projects as defined in section 41-1516 if actual
2 construction begins before January 1, 2024. To qualify for this
3 deduction, the prime contractor must obtain a letter of qualification from
4 the Arizona commerce authority before beginning work under the contract.

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

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

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

19 (c) "Development fees" means fees imposed to offset capital costs
20 of providing public infrastructure, public safety or other public services
21 to a development and authorized pursuant to section 9-463.05, section
22 11-1102 or title 48 regardless of the jurisdiction to which the fees are
23 paid.

24 20. The gross proceeds of sales or gross income derived from a
25 contract entered into for the construction of a mixed waste processing
26 facility that is located on a municipal solid waste landfill and that is
27 constructed for the purpose of recycling solid waste or producing
28 renewable energy from landfill waste. For the purposes of this paragraph:

29 (a) "Mixed waste processing facility" means a solid waste facility
30 that is owned, operated or used for the treatment, processing or disposal
31 of solid waste, recyclable solid waste, conditionally exempt small
32 quantity generator waste or household hazardous waste. For the purposes
33 of this subdivision, "conditionally exempt small quantity generator
34 waste", "household hazardous waste" and "solid waste facility" have the
35 same meanings prescribed in section 49-701, except that solid waste
36 facility does include a site that stores, treats or processes paper,
37 glass, wood, cardboard, household textiles, scrap metal, plastic,
38 vegetative waste, aluminum, steel or other recyclable material.

39 (b) "Municipal solid waste landfill" has the same meaning
40 prescribed in section 49-701.

41 (c) "Recycling" means collecting, separating, cleansing, treating
42 and reconstituting recyclable solid waste that would otherwise become
43 solid waste, but does not include incineration or other similar processes.

44 (d) "Renewable energy" has the same meaning prescribed in section
45 41-1511.

1 C. Entitlement to the deduction pursuant to subsection B, paragraph
2 7 of this section is subject to the following provisions:

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

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

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

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

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

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

42 D. Subcontractors or others who perform modification activities are
43 not subject to tax if they can demonstrate that the job was within the
44 control of a prime contractor or contractors or a dealership of
45 manufactured buildings and that the prime contractor or dealership is

1 liable for the tax on the gross income, gross proceeds of sales or gross
2 receipts attributable to the job and from which the subcontractors or
3 others were paid.

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

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

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

29 H. For the purposes of section 42-5032.02, from and after
30 September 30, 2013, the department shall separately account for revenues
31 reported and collected under the prime contracting classification from any
32 prime contractor engaged in the construction of any buildings and
33 associated improvements that are for the benefit of a manufacturing
34 facility. For the purposes of this subsection, "associated improvements"
35 and "manufacturing facility" have the same meanings prescribed in section
36 42-5032.02.

37 I. The gross proceeds of sales or gross income derived from a
38 contract for lawn maintenance services are not subject to tax under this
39 section if the contract does not include landscaping activities. Lawn
40 maintenance service is a service pursuant to section 42-5061, subsection
41 A, paragraph 1, and includes lawn mowing and edging, weeding, repairing
42 sprinkler heads or drip irrigation heads, seasonal replacement of flowers,
43 refreshing gravel, lawn ~~de-thatching~~ DETHATCHING, seeding winter lawns,
44 leaf and debris collection and removal, tree or shrub pruning or clipping,

1 garden and gravel raking and applying pesticides, as defined in section
2 3-361, and fertilizer materials, as defined in section 3-262.

3 J. Except as provided in subsection 0 of this section, the gross
4 proceeds of sales or gross income derived from landscaping activities are
5 subject to tax under this section. Landscaping includes installing lawns,
6 grading or leveling ground, installing gravel or boulders, planting trees
7 and other plants, felling trees, removing or mulching tree stumps,
8 removing other imbedded plants, building irrigation berms, installing
9 railroad ties and installing underground sprinkler or watering systems.

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

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

22 M. The following apply in determining the taxable situs of sales of
23 manufactured buildings:

24 1. For sales in this state where the manufactured building dealer
25 contracts to deliver the building to a setup site or to perform the setup
26 in this state, the taxable situs is the setup site.

27 2. For sales in this state where the manufactured building dealer
28 does not contract to deliver the building to a setup site or does not
29 perform the setup, the taxable situs is the location of the dealership
30 where the building is delivered to the buyer.

31 3. For sales in this state where the manufactured building dealer
32 contracts to deliver the building to a setup site that is outside this
33 state, the situs is outside this state and the transaction is excluded
34 from tax.

35 N. The gross proceeds of sales or gross income attributable to a
36 written contract for design phase services or professional services,
37 executed before modification begins and with terms, conditions and pricing
38 of all of these services separately stated in the contract from those for
39 construction phase services, is not subject to tax under this section,
40 regardless of whether the services are provided sequential to or
41 concurrent with prime contracting activities that are subject to tax under
42 this section. This subsection does not include the gross proceeds of
43 sales or gross income attributable to construction phase services. For
44 the purposes of this subsection:

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

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

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

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

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

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

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

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

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

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

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

40 (i) Master schedule updates.

41 (ii) Modification work cash flow projection updates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 (vi) Any bond and insurance premiums.

2 (vii) Any applicable taxes.

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

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

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

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

18 0. The gross proceeds of sales or gross income derived from a
19 contract with the owner of real property or improvements to real property
20 for the maintenance, repair, replacement or alteration of existing
21 property is not subject to tax under this section if the contract does not
22 include modification activities, except as specified in this subsection.
23 The gross proceeds of sales or gross income derived from a de minimis
24 amount of modification activity does not subject the contract or any part
25 of the contract to tax under this section. For the purposes of this
26 subsection:

27 1. Tangible personal property that is incorporated or fabricated
28 into a project described in this subsection may be subject to the amount
29 prescribed in section 42-5008.01.

30 2. Each contract is independent of any other contract, except that
31 any change order that directly relates to the scope of work of the
32 original contract shall be treated the same as the original contract under
33 this chapter, regardless of the amount of modification activities included
34 in the change order. If a change order does not directly relate to the
35 scope of work of the original contract, the change order shall be treated
36 as a new contract, with the tax treatment of any subsequent change order
37 to follow the tax treatment of the contract to which the scope of work of
38 the subsequent change order directly relates.

39 P. Notwithstanding subsection 0 of this section, a contract that
40 primarily involves surface or subsurface improvements to land and that is
41 subject to title 28, chapter 19, 20 or 22 or title 34, chapter 2 or 6 is
42 taxable under this section, even if the contract also includes vertical
43 improvements. Agencies that are subject to procurement processes under
44 those provisions shall include in the request for proposals a notice to

1 bidders when those projects are subject to this section. This subsection
2 does not apply to contracts with:

3 1. Community facilities districts, fire districts, county
4 television improvement districts, community park maintenance districts,
5 cotton pest control districts, hospital districts, pest abatement
6 districts, health service districts, agricultural improvement districts,
7 county free library districts, county jail districts, county stadium
8 districts, special health care districts, public health services
9 districts, theme park districts, regional attraction districts or
10 revitalization districts.

11 2. Any special taxing district not specified in paragraph 1 of this
12 subsection if the district does not substantially engage in the
13 modification, maintenance, repair, replacement or alteration of surface or
14 subsurface improvements to land.

15 Q. Notwithstanding subsection R, paragraph 10 of this section, a
16 person owning real property who enters into a contract for sale of the
17 real property, who is responsible to the new owner of the property for
18 modifications made to the property in the period subsequent to the
19 transfer of title and who receives a consideration for the modifications
20 is considered a prime contractor solely for purposes of taxing the gross
21 proceeds of sale or gross income received for the modifications made
22 subsequent to the transfer of title. The original owner's gross proceeds
23 of sale or gross income received for the modifications shall be determined
24 according to the following methodology:

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

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

39 3. If the original owner is responsible to the new owner for
40 modifications made to the property in the period subsequent to the
41 transfer of title and derives any gross proceeds of sale or gross income
42 from the project subsequent to the transfer of title other than a delayed
43 disbursement from escrow unrelated to the modifications, it is presumed
44 that the amounts are received for the modifications made subsequent to the

1 transfer of title unless the contrary is established by the owner through
2 its books, records and papers kept in the regular course of business.

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

5 R. For the purposes of this section:

6 1. "Alteration" means an activity or action that causes a direct
7 physical change to existing property. For the purposes of this paragraph:

8 (a) For existing property that is properly classified as class two
9 property under section 42-12002, paragraph 1, subdivision (c) or paragraph
10 2, subdivision (c) and that is used for residential purposes, class three
11 property under section 42-12003 or class four property under **SECTION**
12 42-12004, this paragraph does not apply if the contract amount is more
13 than twenty-five percent of the most recent full cash value established
14 under chapter 13, article 2 of this title as of the date of any bid for
15 the work or the date of the contract, whichever value is higher.

16 (b) For all existing property other than existing property
17 described in subdivision (a) of this paragraph, this paragraph does not
18 apply if any of the following is true:

19 (i) The contract amount is more than seven hundred fifty thousand
20 dollars.

21 (ii) The scope of work directly relates to more than forty percent
22 of the existing square footage of the existing property.

23 (iii) The scope of work involves expanding the square footage of
24 more than ten percent of the existing property.

25 (c) Project elements may not be artificially separated from a
26 contract to cause a project to qualify as an alteration. The department
27 has the burden of proof that project elements have been artificially
28 separated from a contract.

29 (d) If a project for which the owner and the person performing the
30 work reasonably believed, at the inception of the contract, would be
31 treated as an alteration under this paragraph and, on completion of the
32 project, the project exceeded the applicable threshold described in either
33 subdivision (a) or (b) of this paragraph by no more than twenty-five
34 percent of the applicable threshold for any reason, the work performed
35 under the contract qualifies as an alteration.

36 (e) A change order that directly relates to the scope of work of
37 the original contract shall be treated as part of the original contract,
38 and the contract amount shall include any amount attributable to a change
39 order that directly relates to the scope of work of the original contract.

40 (f) Alteration does not include maintenance, repair or replacement.

41 2. "Contracting" means engaging in business as a contractor.

42 3. "Contractor" is synonymous with the term "builder" and means any
43 person or organization that undertakes to or offers to undertake to, or
44 purports to have the capacity to undertake to, or submits a bid to, or
45 does personally or by or through others, modify any building, highway,

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

8 4. "Manufactured building" means a manufactured home, mobile home
9 or factory-built building, as defined in section 41-4001.

10 5. "Manufactured building dealer" means a dealer who either:

11 (a) Is licensed pursuant to title 41, chapter 37, article 4 and who
12 sells manufactured buildings to the final consumer.

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

17 6. "Modification" means construction, grading and leveling ground,
18 wreckage or demolition. Modification does not include:

19 (a) Any project described in subsection 0 of this section.

20 (b) Any wreckage or demolition of existing property, or any other
21 activity that is a necessary component of a project described in
22 subsection 0 of this section.

23 (c) Any mobilization or demobilization related to a project
24 described in subsection 0 of this section, such as the erection or removal
25 of temporary facilities to be used by those persons working on the
26 project.

27 7. "Modify" means to make a modification or cause a modification to
28 be made.

29 8. "Owner" means the person that holds title to the real property
30 or improvements to real property that is the subject of the work, as well
31 as an agent of the title holder and any person with the authority to
32 perform or authorize work on the real property or improvements, including
33 a tenant and a property manager. For the purposes of subsection 0 of this
34 section, a person who is hired by a general contractor that is hired by an
35 owner, or a subcontractor of a general contractor that is hired by an
36 owner, is considered to be hired by the owner.

37 9. "Prime contracting" means engaging in business as a prime
38 contractor.

39 10. "Prime contractor" means a contractor who supervises, performs
40 or coordinates the modification of any building, highway, road, railroad,
41 excavation, manufactured building or other structure, project, development
42 or improvement, including the contracting, if any, with any subcontractors
43 or specialty contractors and who is responsible for the completion of the
44 contract. Except as provided in subsections E and Q of this section, a
45 person who owns real property, who engages one or more contractors to

1 modify that real property and who does not itself modify that real
2 property is not a prime contractor within the meaning of this paragraph
3 regardless of the existence of a contract for sale or the subsequent sale
4 of that real property.

5 11. "Replacement" means the removal from service of one component
6 or system of existing property or tangible personal property installed in
7 existing property, including machinery or equipment, and the installation
8 of a new component or system or new tangible personal property, including
9 machinery or equipment, that provides the same, A similar or AN upgraded
10 design or functionality, regardless of the contract amount and regardless
11 of whether the existing component or system or existing tangible personal
12 property is physically removed from the existing property.

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