

REFERENCE TITLE: tax corrections act of 2018

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

# SB 1294

Introduced by  
Senator Farnsworth D

## AN ACT

AMENDING SECTIONS 20-224, 20-224.01, 20-224.03, 20-837, 20-1010, 20-1060, 20-1097.07, 41-1512 AND 42-1125, 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, 42-3501, 42-5005, 42-5014, 42-5073, 42-6004, 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 AND 43-1024, ARIZONA REVISED STATUTES; REPEALING SECTION 43-1032, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1042, 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.~~

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

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

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

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

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

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

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

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

2. The new employee meets all of the same requirements as the 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 41-1512, Arizona Revised Statutes, is amended to  
20 read:

21 41-1512. Qualified facility income tax credits:  
22 qualification; definitions

23 A. For taxable years beginning from and after December 31, 2012,  
24 income tax credits are allowed for expanding or locating a qualified  
25 facility in this state pursuant to sections 43-1083.03 and 43-1164.04.  
26 Only capital investments in a qualified facility that are made on or after  
27 July 1, 2012 are included in the computation of the credit.

28 B. To be eligible for the income tax credits, a taxpayer must apply  
29 to the authority, on a form prescribed by the authority, for preapproval  
30 of the business as qualifying for the credits. The application must  
31 include:

32 1. The applicant's name, address, telephone number and federal  
33 taxpayer identification number or numbers.

34 2. The name, address, telephone number and e-mail address of a  
35 contact person for the applicant.

36 3. The address of the site where the qualified facility will be  
37 located.

38 4. A detailed description of the qualified facility and fixed  
39 capital assets.

40 5. An estimate of the capital investment and number of employment  
41 positions at the qualified facility, including:

42 (a) A schedule of qualifying investments.

43 (b) A list of full-time employment positions, the estimated number  
44 of employees to be hired for the positions each year during the first five

1 years of operation and the annual wages for each position, calculated  
2 without employee-related benefits.

3 6. A nonrefundable processing fee in an amount determined by the  
4 authority.

5 7. Other information as required by the authority to determine  
6 eligibility for the income tax credits and the amount of income tax  
7 credits, as prescribed by this section.

8 8. An affirmation, signed by an authorized executive representing  
9 the business, that the applicant:

10 (a) Agrees to furnish records of expenditures for qualifying  
11 investments to the authority on request.

12 (b) Will continue in business at the qualified facility for five  
13 full calendar years after postapproval for the credit, other than for  
14 reasons beyond the control of the applicant.

15 (c) Agrees to furnish to the authority information regarding the  
16 amount of income tax credits claimed each year.

17 (d) Authorizes the department of revenue to provide tax information  
18 to the authority pursuant to section 42-2003 for the purpose of  
19 determining any inconsistency in information furnished by the applicant.

20 (e) Agrees to allow site visits and audits to verify the  
21 applicant's continuing qualification and the accuracy of information  
22 submitted to the authority.

23 (f) Consents to the adjustment or recapture of any amount of income  
24 tax credit due to noncompliance with this section.

25 9. Letters of good standing from the department of revenue stating  
26 that the applicant is not delinquent in the payment of taxes.

27 C. The applicant may qualify for the income tax credits pursuant to  
28 section 43-1083.03 or 43-1164.04, as applicable, if:

29 1. The applicant makes new capital investment in this state after  
30 June 30, 2012 in a qualified facility that is completed in a taxable year  
31 beginning from and after December 31, 2012.

32 2. At least fifty-one percent of the net new full-time employment  
33 positions at the qualified facility pay a wage that equals or exceeds one  
34 hundred twenty-five percent, or one hundred percent in the case of a  
35 qualified facility in a rural location, of the median annual wage for  
36 production occupations in this state, as determined by the most recent  
37 annual Arizona commerce authority occupational wage and employment  
38 estimates issued before the preapproval is issued pursuant to subsection I  
39 of this section.

40 3. All net new full-time employment positions include health  
41 insurance coverage for the employees for which the applicant pays at least  
42 sixty-five percent of the premium or membership cost.

43 D. Final eligibility for an income tax credit is subject to any  
44 additional requirements prescribed by section 43-1083.03 or 43-1164.04, as  
45 applicable.

1 E. An applicant may separately apply and qualify with respect to  
2 investments for separate expansions of a qualified facility.

3 F. The amount of the income tax credit to be preapproved by the  
4 authority to a qualifying applicant is ten percent of the lesser of:

5 1. The amount the applicant has projected in total qualifying  
6 investment in the qualified facility.

7 2. Two hundred thousand dollars for each net new full-time  
8 employment position projected by the applicant at a qualified facility.

9 G. Beginning with income tax credits allocated for 2013, an  
10 approved credit:

11 1. Must be claimed on a timely filed original income tax return,  
12 including extensions.

13 2. Must be claimed in five equal installments as provided by  
14 section 43-1083.03 or 43-1164.04.

15 H. The authority shall establish a process for qualifying and  
16 preapproving applicants for the income tax credits. The authority shall  
17 not preapprove applicants as qualifying for credits under this section ~~for~~  
18 ~~any taxable year beginning from and~~ after December 31, 2022. Preapproval  
19 is based on:

20 1. Priority placement established by the date that the applicant  
21 files its initial application with the authority.

22 2. The availability of income tax credit capacity under the dollar  
23 limit prescribed by subsection J of this section.

24 I. Within thirty days after receiving a complete and correct  
25 application, the authority shall review the application to determine  
26 whether the applicant satisfies all of the criteria prescribed by this  
27 section and either preapprove the project as qualifying for the purposes  
28 of an income tax credit or provide reasons for its denial. The authority  
29 shall send copies of each preapproval to the department of revenue.

30 J. The authority shall not preapprove income tax credits under this  
31 section that combined would exceed seventy million dollars in any calendar  
32 year, except as provided by this subsection and subsection K of this  
33 section. A preapproved amount applies against the dollar limit for the  
34 year in which the application was submitted regardless of whether the  
35 initial preapproval period extends into the following year or years. The  
36 authority shall not preapprove income tax credits under this section for  
37 any taxpayer in excess of thirty million dollars in any calendar year.

38 K. The authority shall reallocate the amount of income tax credits  
39 that are voluntarily relinquished under subsection L of this section, that  
40 lapse under subsection M of this section or that lapse under subsection P  
41 of this section. The reallocation shall be to other businesses that  
42 applied under this section in the original credit year based on priority  
43 placement. Once reallocated, the amount of the credit applies against the  
44 dollar limit of the original credit year regardless of the year in which  
45 the reallocation occurs.

1 L. A taxpayer may voluntarily relinquish unused credit amounts in  
2 writing to the authority.

3 M. Preapproval under this section lapses, the application is void  
4 and the amount of the preapproved income tax credits does not apply  
5 against the dollar limit prescribed by subsection J of this section if,  
6 within twelve months after preapproval, the business fails to provide to  
7 the authority documentation of its expenditure of two hundred fifty  
8 thousand dollars in qualifying investment or, if the period over which the  
9 qualifying investment will be made exceeds twelve months, documentation of  
10 additional expenditures as required in this subsection for each  
11 twelve-month period.

12 N. After October 31 of each year, if the authority has preapproved  
13 the maximum calendar year income tax credit amount pursuant to subsection  
14 J of this section, the authority may accept initial applications for the  
15 next calendar year, but the preapproval of any application pursuant to  
16 this subsection shall not be effective before the first business day of  
17 the following calendar year.

18 O. Before an applicant applies for postapproval under subsection P  
19 of this section, the applicant must enter into a written managed review  
20 agreement with the chief executive officer of the authority that  
21 establishes the requirements of a managed review to be conducted under  
22 this subsection at the applicant's expense. The managed review must be  
23 conducted by a certified public accountant who is selected by the  
24 applicant, who is licensed in this state or who has a limited reciprocity  
25 privilege pursuant to section 32-725 and who is approved by the chief  
26 executive officer. The certified public accountant and the firm the  
27 certified public accountant is affiliated with shall not regularly perform  
28 services for the applicant or its affiliates. The managed review shall  
29 include an analysis of the applicant's invoices, checks, accounting  
30 records and other documents and information to verify its base investment  
31 and other requirements prescribed by section 43-1083.03 or 43-1164.04 to  
32 confirm the amount of credit. The certified public accountant shall  
33 furnish written findings of the managed review to the chief executive  
34 officer. The chief executive officer shall review the findings and may  
35 examine records and perform other reviews that the chief executive officer  
36 considers necessary to verify that the managed review substantially  
37 conforms to the terms of the managed review agreement. The chief  
38 executive officer shall accept or reject the findings of the managed  
39 review. If the chief executive officer rejects all or part of the managed  
40 review, the chief executive officer shall provide written reasons for the  
41 rejection.

42 P. When the qualified facility begins operations, a business that  
43 was preapproved for income tax credits under this section shall apply to  
44 the authority in writing for postapproval of the credits and submit  
45 documentation certifying the total amount and dates of the qualifying

1 investments and identifying the fixed capital assets associated with the  
2 qualified facility incurred after June 30, 2012 through the date of  
3 application for postapproval. For taxable years beginning from and after  
4 December 31, 2012, the authority shall provide postapproval to a business  
5 that has met the eligibility requirements of this section and shall notify  
6 the department of revenue that the business may claim an income tax credit  
7 pursuant to section 43-1083.03 or 43-1164.04. If the amount of qualifying  
8 investment actually spent is less than the amount preapproved for income  
9 tax credits, the preapproved amount not incurred lapses and does not apply  
10 against the dollar limit prescribed by subsection J of this section for  
11 that year. The department of revenue shall not allow an income tax credit  
12 under section 43-1083.03 or 43-1164.04 that exceeds the amount of the  
13 postapproval for the project under this subsection. For the purposes of  
14 this subsection, "begins operations" means the qualified facility opens  
15 for public business.

16 Q. The authority may rescind an applicant's postapproval if the  
17 business no longer meets the terms and conditions required for qualifying  
18 for the credit. The authority may give special consideration, or allow  
19 temporary exemption from recapture of the credit, in the case of  
20 extraordinary hardship due to factors beyond the control of the qualifying  
21 business.

22 R. If the authority rescinds an applicant's preapproval or  
23 postapproval under subsection Q of this section, it shall notify the  
24 department of revenue of the action and the conditions of noncompliance.  
25 If the department of revenue obtains information indicating a possible  
26 failure to qualify and comply, it shall provide that information to the  
27 authority. The department of revenue may require the business to file  
28 appropriate amended tax returns reflecting any recapture of the credit  
29 under section 43-1083.03 or 43-1164.04.

30 S. Preapproval and postapproval of an applicant for the purposes of  
31 income tax credits under this section do not constitute or imply  
32 compliance with any other provision of law or any regulatory rule, order,  
33 procedure, permit or other measure required by law. To maintain  
34 qualification for a credit under this section, a business must separately  
35 comply with all environmental, employment and other regulatory measures.

36 T. For five years after postapproval of an income tax credit under  
37 this section, in any action involving the liquidation of the business  
38 assets or relocation out of state, this state claims the position of a  
39 secured creditor of the business in the amount of the credit the business  
40 received pursuant to section 43-1083.03 or 43-1164.04. The transfer of  
41 part or all of a company's assets that are then leased back by the company  
42 is not considered a liquidation under this section.

43 U. Any information gathered from a business for the purposes of  
44 this section is considered to be confidential taxpayer information and  
45 shall be disclosed only as provided in section 42-2003, subsection B,

1 paragraph 12, except that the authority shall publish the following  
2 information in its annual report:

3 1. The name of each business and the amount of income tax credits  
4 preapproved for each qualifying investment.

5 2. The amount of income tax credits postapproved with respect to  
6 each qualifying investment.

7 V. The authority shall:

8 1. Keep annual records of the information provided on applications  
9 for qualified facilities. These records shall reflect a percentage  
10 comparison of the annual amount of monies credited to qualified facilities  
11 to the estimated amount of monies spent in this state in the form of  
12 qualifying investments.

13 2. Maintain annual data on growth in this state of qualified  
14 facilities and related employment and wages.

15 3. Not later than April 30 following each calendar year, prepare  
16 and publish a report summarizing the information collected pursuant to  
17 this subsection. The authority shall make copies of the annual report  
18 available to the public on request.

19 W. The authority shall adopt rules and prescribe forms and  
20 procedures as necessary for the purposes of this section. The authority  
21 and the department of revenue shall collaborate in adopting rules as  
22 necessary to avoid duplication and inconsistencies while accomplishing the  
23 intent and purposes of this section.

24 X. For the purposes of this section:

25 1. "Capital investment" means an expenditure to acquire, lease or  
26 improve property that is used in operating a business, including land,  
27 buildings, machinery, equipment and fixtures.

28 2. "Facility" means a single parcel or contiguous parcels of owned  
29 or leased land in this state, the structures and personal property  
30 contained on the land or any part of the structures occupied by the owner.  
31 Parcels that are separated only by a public thoroughfare or right-of-way  
32 are considered to be contiguous.

33 3. "Headquarters" means a principal central administrative office  
34 where primary headquarters related functions and services are performed,  
35 including financial, personnel, administrative, legal, planning and  
36 similar business functions.

37 4. "Manufacturing" means fabricating, producing or manufacturing  
38 raw or prepared materials into usable products, imparting new forms,  
39 qualities, properties and combinations. Manufacturing does not include  
40 generating electricity.

41 5. "Qualified facility" means a facility in this state that devotes  
42 at least eighty percent of the property and payroll at the facility to one  
43 or more of the following:

44 (a) Qualified manufacturing.

45 (b) Qualified headquarters.

1 (c) Qualified research.

2 6. "Qualified headquarters" means a global, national or regional  
3 headquarters for a taxpayer that is involved in manufacturing and that  
4 derives at least sixty-five percent of its revenue from out-of-state  
5 sales.

6 7. "Qualified manufacturing" means manufacturing tangible products  
7 in this state if at least sixty-five percent of the product will be sold  
8 out of state.

9 8. "Qualified research" has the same meaning prescribed by section  
10 41(d) of the internal revenue code, as defined by section 43-105, except  
11 that the research must be conducted by a taxpayer involved in  
12 manufacturing that derives at least sixty-five percent of its revenue from  
13 out-of-state sales.

14 9. "Qualifying investment" means investment in land, buildings,  
15 machinery, equipment and fixtures for expansion of an existing qualified  
16 facility or establishment of a new qualified facility in this state after  
17 June 30, 2012 for a facility completed in a taxable year beginning from  
18 and after December 31, 2012. If the qualified facility is a build-to-suit  
19 facility leased to the taxpayer, qualifying investment includes the costs  
20 prescribed in this paragraph that are spent by the third-party developer  
21 with respect to the qualified facility. Qualifying investment does not  
22 include relocating an existing qualified facility in this state to another  
23 location in this state without additional capital investment of at least  
24 two hundred fifty thousand dollars.

25 10. "Rural location" means a location that is within the boundaries  
26 of tribal lands or a city or town with a population of less than fifty  
27 thousand persons or a county with a population of less than eight hundred  
28 thousand persons.

29 Sec. 9. Section 42-1125, Arizona Revised Statutes, is amended to  
30 read:

31 42-1125. Civil penalties; definition

32 A. If a taxpayer fails to make and file a return for a tax  
33 administered pursuant to this article on or before the due date of the  
34 return or the due date as extended by the department, unless it is shown  
35 that the failure is due to reasonable cause and not due to wilful neglect,  
36 four and one-half percent of the tax required to be shown on such return  
37 shall be added to the tax for each month or fraction of a month elapsing  
38 between the due date of the return and the date on which it is filed. The  
39 total penalty shall not exceed twenty-five percent of the tax found to be  
40 remaining due. The penalty so added to the tax is due and payable on  
41 notice and demand from the department. For the purpose of computing the  
42 penalty imposed under this subsection, the amount required to be shown as  
43 tax on a return shall be reduced by the amount of any part of the tax that  
44 is paid on or before the beginning of such month and by the amount of any  
45 credit against the tax that may be claimed on the return. If the amount

1 required to be shown as tax on a return is less than the amount shown as  
2 tax on such return, the penalty described in this subsection shall be  
3 applied by substituting such lower amount.

4 B. If a taxpayer fails or refuses to file a return on notice and  
5 demand by the department, the taxpayer shall pay a penalty of twenty-five  
6 percent of the tax, which is due and payable on notice and demand by the  
7 department, in addition to any penalty prescribed by subsection A of this  
8 section, unless it is shown that the failure is due to reasonable cause  
9 and not due to wilful neglect. This penalty is payable on notice and  
10 demand from the department.

11 C. If a taxpayer fails or refuses to furnish any information  
12 requested in writing by the department, the department may add a penalty  
13 of twenty-five percent of the amount of any deficiency tax assessed by the  
14 department concerning the assessment of which the information was  
15 required, unless it is shown that the failure is due to reasonable cause  
16 and not due to wilful neglect.

17 D. If a person fails to pay the amount shown as tax on any return  
18 within the time prescribed, a penalty of one-half of one percent, not to  
19 exceed a total of ten percent, shall be added to the amount shown as tax  
20 for each month or fraction of a month during which the failure continues,  
21 unless it is shown that the failure is due to reasonable cause and not due  
22 to wilful neglect. If the department determines that the person's failure  
23 to pay was due to reasonable cause and not due to wilful neglect and that  
24 a payment agreement pursuant to section 42-2057 is appropriate, the  
25 department shall not impose the penalty unless the taxpayer fails to  
26 comply with the payment agreement. If the taxpayer is also subject to a  
27 penalty under subsection A of this section for the same tax period, the  
28 total penalties under subsection A of this section and this subsection  
29 shall not exceed twenty-five percent. For the purpose of computing the  
30 penalty imposed under this subsection:

31 1. The amount shown as tax on a return shall be reduced by the  
32 amount of any part of the tax that is paid on or before the beginning of  
33 that month and by the amount of any credit against the tax that may be  
34 claimed on the return.

35 2. If the amount shown as tax on a return is greater than the  
36 amount required to be shown as tax on that return, the penalty shall be  
37 applied by substituting the lower amount.

38 E. If a person fails to pay any amount required to be shown on any  
39 return that is not so shown within twenty-one calendar days after the date  
40 of notice and demand, a penalty of one-half of one percent, not to exceed  
41 a total of ten percent, shall be added to the amount of tax for each month  
42 or fraction of a month during which the failure continues, unless it is  
43 shown that the failure is due to reasonable cause and not due to wilful  
44 neglect. If the taxpayer is also subject to penalty under subsection A of  
45 this section for the same tax period, the total penalties under subsection



1 A of this section and this subsection shall not exceed twenty-five  
2 percent. For the purpose of computing the penalty imposed under this  
3 subsection, any amount required to be shown on any return shall be reduced  
4 by the amount of any part of the tax that is paid on or before the  
5 beginning of that month and by the amount of any credit against the tax  
6 that may be claimed on the return.

7 F. In the case of a deficiency, for which a determination is made  
8 of an additional amount due, that is due to negligence but without intent  
9 to defraud, the person shall pay a penalty of ten percent of the amount of  
10 the deficiency.

11 G. If part of a deficiency is due to fraud with intent to evade  
12 tax, fifty percent of the total amount of the tax, in addition to the  
13 deficiency, interest and other penalties provided in this section, shall  
14 be assessed, collected and paid as if it were a deficiency.

15 H. If the amount, whether determined by the department or the  
16 taxpayer, required to be withheld by the employer pursuant to title 43,  
17 chapter 4 is not paid to the department on or before the date prescribed  
18 for its remittance, the department may add a penalty of twenty-five  
19 percent of the amount required to be withheld and paid, unless it is shown  
20 that the failure is due to reasonable cause and not due to wilful neglect.

21 I. A person who, with or without intent to evade any requirement of  
22 this article or any lawful administrative rule of the department of  
23 revenue under this article, fails to file a return or to supply  
24 information required under this article or who, with or without such  
25 intent, makes, prepares, renders, signs or verifies a false or fraudulent  
26 return or statement or supplies false or fraudulent information shall pay  
27 a penalty of not more than one thousand dollars. This penalty shall be  
28 recovered by the department of law in the name of this state by an action  
29 in any court of competent jurisdiction.

30 J. If the taxpayer files what purports to be a return of any tax  
31 administered pursuant to this article but that is frivolous or that is  
32 made with the intent to delay or impede the administration of the tax  
33 laws, that person shall pay a penalty of five hundred dollars.

34 K. If any person who is required to file or provide an information  
35 return under this title or title 43 or who is required to file or provide  
36 a return or report under chapter 3 of this title fails to file the return  
37 or report at the prescribed time or in the manner required, or files a  
38 return or report that fails to show the information required, that person  
39 shall pay a penalty of one hundred dollars for each month or fraction of a  
40 month during which the failure continues unless it is shown that the  
41 failure is due to reasonable cause and not due to wilful neglect. The  
42 total penalties for each return or report under this subsection shall not  
43 exceed five hundred dollars.

44 L. If it appears to the superior court that proceedings before it  
45 have been instituted or maintained by a taxpayer primarily for delay or

1 that the taxpayer's position is frivolous or groundless, the court may  
2 award damages in an amount not to exceed one thousand dollars to this  
3 state. Damages so awarded shall be collected as a part of the tax.

4 M. A person who is required under section 43-413 to furnish a  
5 statement to an employee and who wilfully furnishes a false or fraudulent  
6 statement, or who wilfully fails to furnish a statement required by  
7 section 43-413, is for each such failure subject to a penalty of fifty  
8 dollars.

9 N. A person who is required to collect or truthfully account for  
10 and pay a tax administered pursuant to this article, including any luxury  
11 privilege tax, and who wilfully fails to collect the tax or truthfully  
12 account for and pay the tax, or wilfully attempts in any manner to evade  
13 or defeat the tax or its payment, is, in addition to other penalties  
14 provided by law, liable for a penalty equal to the total amount of the tax  
15 evaded, not collected or not accounted for and paid. Except as provided  
16 in subsections U, V and W of this section, no other penalty under this  
17 section relating to failure to pay tax may be imposed for any offense to  
18 which this subsection applies.

19 O. For reporting periods beginning from and after February 28,  
20 2011, if a taxpayer who is required under section 42-1129 to make payment  
21 by electronic funds transfer fails to do so, that taxpayer shall pay a  
22 penalty of five percent of the amount of the payment not made by  
23 electronic funds transfer unless it is shown that the failure is due to  
24 reasonable cause and not due to wilful neglect. For the reporting periods  
25 beginning on July 1, 2015, the penalty in this subsection applies to any  
26 taxpayer who is required under section 42-3053 to make payment by  
27 electronic funds transfer and fails to do so unless it is shown that the  
28 failure is due to reasonable cause and not due to wilful neglect.

29 P. Unless due to reasonable cause and not to wilful neglect:

30 1. A person who fails to provide that person's taxpayer  
31 identification number in any return, statement or other document as  
32 required by section 42-1105, subsection A shall pay a penalty of five  
33 dollars for each such failure.

34 2. A person, when filing any return, statement or other document  
35 for compensation on behalf of a taxpayer, who fails to include that  
36 person's own taxpayer identification number and the taxpayer's  
37 identification number shall pay a penalty of fifty dollars for each such  
38 failure.

39 3. A person, when filing any return, statement or other document  
40 without compensation on behalf of a taxpayer, who fails to include that  
41 person's own taxpayer identification number and the taxpayer's  
42 identification number is not subject to a penalty.

43 No other penalty under this section may be imposed if the only violation  
44 is failure to provide taxpayer identification numbers.

Q. If a taxpayer fails to pay the full amount of estimated tax required by title 43, chapter 5, article 6, a penalty is assessed equal to the amount of interest that would otherwise accrue under section 42-1123 on the amount not paid for the period of nonpayment, not exceeding ten percent of the amount not paid. The penalty prescribed by this subsection is in lieu of any other penalty otherwise prescribed by this section and in lieu of interest prescribed by section 42-1123.

R. Beginning January 1, 2015, if a taxpayer continues in business without timely renewing a municipal privilege tax license as prescribed in section 42-5005, subsection D, a civil penalty of up to twenty-five dollars shall be added to the renewal fee for each jurisdiction.

S. The department of law, with the consent of the department of revenue, may compromise any penalty for which it may bring an action under this section.

T. Penalties shall not be assessed under subsection D of this section on additional amounts of tax paid by a taxpayer at the time the taxpayer voluntarily files an amended return. This subsection does not apply if:

1. The taxpayer is under audit by the department.

2. The amended return was filed on demand or request by the department.

U. In addition to other penalties provided by law, a person who knowingly and intentionally does not comply with any requirement under chapter 3 of this title relating to ~~cigarettes~~ TOBACCO PRODUCTS shall pay a penalty of one thousand dollars. A person who knowingly and intentionally does not pay any luxury tax that relates to ~~cigarettes~~ TOBACCO PRODUCTS imposed by chapter 3 of this title shall pay a penalty that is equal to ten percent of the amount of the unpaid tax.

V. A manufacturer or importer or a distributor, as defined in section 42-3001, who knowingly and intentionally sells or possesses cigarettes with false manufacturing labels or cigarettes with counterfeit tax stamps, or who obtains cigarettes through the use of a counterfeit license, shall pay the following penalties:

1. For a first violation involving two thousand or more cigarettes, one thousand dollars.

2. For a subsequent violation involving two thousand or more cigarettes, five thousand dollars.

W. The civil penalties in this section are in addition to any civil penalty under chapter 3, article 10, 11 or 12 of this title.

X. Notwithstanding subsection A of this section, the penalty imposed on a taxpayer that fails to make and file a return for tax administered pursuant to chapter 5 or 6 of this title on or before the due date of the return or the due date as extended by the department, unless it is shown that the failure is due to a reasonable cause and not due to wilful neglect, is four and one-half percent of the tax required to be

1 shown on the return, or twenty-five dollars, whichever is greater. The  
2 penalty shall be added to the tax for each month or fraction of a month  
3 elapsing between the due date of the return and the date on which it is  
4 filed. The total penalty may not exceed twenty-five percent of the tax  
5 found to be remaining due, or one hundred dollars, whichever is greater.

6 Y. Notwithstanding subsection B of this section, the penalty  
7 imposed on a taxpayer that fails to file a return pursuant to chapter 5 or  
8 6 of this title on notice and demand by the department is twenty-five  
9 percent of the tax, or one hundred dollars, whichever is greater. The  
10 penalty is due and payable on notice and demand by the department, in  
11 addition to any penalty prescribed by subsection A of this section, unless  
12 it is shown that the failure is due to a reasonable cause and not due to  
13 wilful neglect.

14 Z. For the purposes of this section, and only as applied to the  
15 taxes imposed by chapter 5, articles 1 through 6 and chapter 6, articles  
16 1, 2 and 3 of this title, "reasonable cause" means a reasonable basis for  
17 the taxpayer to believe that the tax did not apply to the business  
18 activity or the storage, use or consumption of the taxpayer's tangible  
19 personal property in this state.

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

23 42-2003. Authorized disclosure of confidential information

24 A. Confidential information relating to:

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

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

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

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

41 5. A trust may be disclosed to the trustee or trustees, jointly or  
42 separately, and to the grantor or any beneficiary of the trust if the  
43 department finds that the grantor or beneficiary has a material interest  
44 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.

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

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

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

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

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

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

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

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

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

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

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

H. Confidential information relating to transaction privilege tax, use tax, severance tax, jet fuel excise and use tax and any other tax collected by the department on behalf of 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. 11. 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.

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

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

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

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

(b) A state tax official of another state.

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

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

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

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

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

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

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

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

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

- 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.

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

1           Sec. 12. 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. THE APPLICANT'S OR  
20 LICENSEE'S PRINCIPAL PLACE OF BUSINESS OR OTHER BUSINESS LOCATIONS MAY NOT  
21 INCLUDE A RESIDENTIAL LOCATION, POST OFFICE BOX OR OTHER PLACE THAT  
22 REQUIRES A JUDICIAL WARRANT OR WRITTEN CONSENT OF THE APPLICANT, THE  
23 LICENSEE OR ANY OTHER PERSON BEFORE INSPECTION BY THE DEPARTMENT OR A  
24 LOCATION THAT IS IDENTIFIED AS A PRINCIPAL PLACE OF BUSINESS OR BUSINESS  
25 LOCATION OF ANOTHER DISTRIBUTOR LICENSED UNDER THIS SECTION. If the  
26 applicant is a firm, partnership, limited liability company, limited  
27 liability partnership or association, the applicant shall list the name  
28 and address of each of the applicant's members. If the applicant is a  
29 corporation, the application shall list the name and address of the  
30 applicant's officers and any person who directly or indirectly owns an  
31 aggregate amount of ten percent or more of the ownership interest in the  
32 corporation. If a licensee is a corporation, firm, partnership, limited  
33 liability company, limited liability partnership or association, the  
34 licensee under this subsection shall notify the department in writing  
35 within thirty days after any change in membership, legal entity status or  
36 ownership of more than fifty percent of the total ownership interest in a  
37 single transaction. If a licensee changes its business location, the  
38 licensee under this subsection shall notify the department within thirty  
39 days after a change in location. If the licensee is making a change in  
40 its business location by adding or replacing one or more additional places  
41 of business that are not currently listed on its application, the licensee  
42 must remit a fee of twenty-five dollars for each additional place of  
43 business.

44           B. For the purposes of subsection A of this section, an applicant  
45 with a controlling interest in more than one business engaged in

activities as a distributor shall apply for a single license encompassing all such businesses and list each place of business in its application. For the purposes of this subsection, "controlling interest" means direct or indirect ownership of at least eighty percent of the voting shares of a corporation or of the interests in a company, business or person other than a corporation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

K. Notwithstanding any other law, for the purposes of subsection F, paragraphs 1 and 2 of this section, section 42-1127, subsection C and section 42-3461, subsection B, if a distributor has listed in its application more than one place of business, any suspension, revocation, cancellation, **DENIAL** or nonrenewal of the distributor's license shall apply only with effect to remove the place of business or business location at which the activity occurred from the distributor's license. If such a removal occurs, the distributor shall be subject to restrictions that the department prescribes by rule.

Sec. 13. Section 42-3406, Arizona Revised Statutes, is amended to read:

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

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

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

2. The burden of proof for the refund or rebate is on the distributor, but if the distributor complies in all other respects with this section, the department may require the retailer that caused the execution of the report to establish the accuracy and completeness of the information required to be contained in the report that would entitle the distributor to the refund or rebate. If the retailer cannot establish the accuracy and completeness of the information, the retailer is liable in an amount equal to any tax, penalty and interest that the distributor would have been liable for under this chapter if the distributor had not otherwise complied with this section. Payment of the amount under this section by the retailer exempts the distributor from liability for the underlying tax, penalty and interest. All amounts paid by a retailer

1 under this paragraph shall be treated as tax revenues collected from the  
2 distributor in order to designate the distribution base for the purposes  
3 of this chapter.

4 B. In its discretion and in circumstances ~~where~~ IN WHICH a retailer  
5 is uncooperative, NONRESPONSIVE or no longer in business, the department  
6 may accept proof other than a report described in subsection A of this  
7 section if the distributor shows, to the satisfaction of the department,  
8 that it exercised ordinary business care and prudence but was unable to  
9 furnish a report executed by the retailer. Acceptable forms of proof  
10 presented by the distributor pursuant to this subsection must consist of  
11 books, records or papers maintained by the distributor or retailer in the  
12 regular course of business.

13 Sec. 14. Section 42-3462, Arizona Revised Statutes, is amended to  
14 read:

15 42-3462. Cigarette and roll-your-own tobacco: filing  
16 requirements; definition

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

21 1. The brand names and quantities of each brand of cigarettes and  
22 roll-your-own tobacco in possession at the beginning and end of the  
23 reporting period.

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

27 3. The brand names and quantities of each brand of cigarettes and  
28 roll-your-own tobacco distributed or shipped into this state or between  
29 locations in this state during the reporting period, except for sales  
30 directly to consumers, and the name and address of each person to whom  
31 each product was distributed or shipped, with reference to the dates of  
32 distribution or shipment and corresponding invoice numbers from the  
33 invoices documenting the distribution or shipments.

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

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

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

4           7. The name and address of each nonparticipating manufacturer of  
5 each brand of cigarettes and roll-your-own tobacco identified by the  
6 distributor in the return.

7           8. The number of individual cigarettes and ounces of roll-your-own  
8 tobacco of each brand of each nonparticipating manufacturer sold in this  
9 state by the distributor during the preceding month, separately stating  
10 each of the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11 B. ~~ANY~~ <sup>A</sup> ANY person who sells, ships or transfers cigarettes and  
12 roll-your-own tobacco ~~for sale, shipment or transfer~~ into or within this  
13 state shall file a monthly report with the department on the tenth day of  
14 each month ~~AFTER THE SALE, SHIPMENT OR TRANSFER~~ in the form and manner  
15 prescribed by section 42-3053, subsection C. The report shall contain  
16 information regarding each shipment of cigarettes and roll-your-own  
17 tobacco into ~~OR WITHIN~~ this state during the previous calendar month,  
18 including the date of shipment, the name and address of the person to whom  
19 the shipment was made and the name, address and telephone number of the  
20 person ~~OR SERVICE~~ delivering the shipment to the recipient on behalf of  
21 the seller. The report shall also include the brand names and quantities  
22 of cigarettes and roll-your-own tobacco contained in each shipment, with  
23 invoices or references to invoice number documenting each shipment.

24 C. Distributor reports that are submitted under subsection A of  
25 this section shall be itemized to disclose the quantity of reported  
26 cigarettes bearing tax stamps of this state, tax exempt stamps of this  
27 state, stamps of another state and unstamped cigarettes. The distributor  
28 reports shall also include, if applicable, the following:

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

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

33 3. The quantity of each type of Arizona stamp received during the  
34 reporting period.

35 4. The quantity of each type of Arizona stamp applied during the  
36 reporting period.

37 D. The department may adopt rules requiring additional information  
38 in the monthly reports as necessary for the purposes of enforcing this  
39 article.

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



1       Sec. 15. Section 42-3501, Arizona Revised Statutes, is amended to  
2 read:

3       42-3501. Return and payment by distributors of tobacco  
4                   products other than cigarettes

5       A. Except for tobacco products described in section 42-3402, every  
6 distributor of tobacco products other than cigarettes shall pay the tax  
7 imposed by this chapter on all those products received within ~~the~~ THIS  
8 state and shall add the amount of the tax to the sales price.

9       B. The distributor shall pay the tax to the department monthly on  
10 or before the twentieth day of the month next succeeding the month in  
11 which the tax accrues.

12       C. On or before that date the distributor shall prepare a sworn  
13 return for the month in which the tax accrues in the form prescribed by  
14 the department, showing:

15           1. The amount of tobacco products other than cigarettes received in  
16 this state during the month in which the tax accrues.

17           2. The amount of tax for the period covered by the return.

18           3. Any other information the department deems necessary for the  
19 proper administration of this chapter, including information required for  
20 roll-your-own tobacco provided under section 42-3462.

21       D. The distributor shall ~~deliver~~ SUBMIT the return, together with a  
22 remittance of the amount of the tax due, to the department IN THE MANNER  
23 REQUIRED UNDER SECTION 42-3053.

24       E. A taxpayer who fails to pay the tax ~~within ten days of~~ ON OR  
25 BEFORE the date ~~on which~~ the payment becomes due is subject to and shall  
26 pay a penalty determined under section 42-1125 plus interest at the rate  
27 determined pursuant to section 42-1123 from the time the tax was due and  
28 payable until paid.

29       Sec. 16. Section 42-5005, Arizona Revised Statutes, is amended to  
30 read:

31       42-5005. Transaction privilege tax and municipal privilege  
32                   tax licenses: fees: renewal: revocation:  
33                   violation; classification

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

41       B. A person desiring to engage or continue in business within a  
42 city or town that imposes a municipal privilege tax shall apply to the  
43 department of revenue for an annual municipal privilege tax license  
44 accompanied by a fee of up to fifty dollars, as established by ordinance  
45 of the city or town. The person shall submit the fee with each new

1 license application. The person may not engage or continue in business  
2 until the person has obtained a municipal privilege tax license. The  
3 department must collect, hold, pay and manage the fees in trust for the  
4 city or town and may not use the monies for any other purposes.

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

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

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

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

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

32 1. "Location" means the business address appearing in the  
33 application for the license and on the transaction privilege tax or  
34 municipal privilege tax license.

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

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

39 H. When the ownership or location of a business on which a  
40 transaction privilege tax or municipal privilege tax is imposed has been  
41 changed within the meaning of subsection G of this section, the licensee  
42 shall surrender the license to the department. The license shall be  
43 reissued to the new owners or for the new location on application by the  
44 taxpayer and payment of the twelve-dollar fee for a transaction privilege  
45 tax license and a fee of up to fifty dollars per jurisdiction for a

1 municipal privilege tax license. The department must collect, hold, pay  
2 and manage the fees in trust for the city or town and may not use the  
3 monies for any other purposes.

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

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

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

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

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

40 N. If a person violates this article or any rule adopted under this  
41 article, the department upon hearing may revoke any transaction privilege  
42 tax or municipal privilege tax license issued to the person. The  
43 department shall provide ten days' written notice of the hearing, stating  
44 the time and place and requiring the person to appear and show cause why  
45 the license or licenses should not be revoked. The department shall

1 provide written notice to the person of the revocation of the license.  
 2 The notices may be served personally or by mail pursuant to section  
 3 42-5037. After revocation, the department shall not issue a new license  
 4 to the person unless the person presents evidence satisfactory to the  
 5 department that the person will comply with this article and with the  
 6 rules adopted under this article. The department may prescribe the terms  
 7 under which a revoked license may be reissued.

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

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

16 Sec. 17. Section 42-5014, Arizona Revised Statutes, is amended to  
 17 read:

18 42-5014. Return and payment of tax: estimated tax:  
 19 extensions; abatements

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

22 1. Are due and payable monthly in the form required by section  
 23 42-5018 for the amount of the tax, to the department, on or before the  
 24 twentieth day of the month next succeeding the month in which the tax  
 25 accrues.

26 2. Are delinquent as follows:

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

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

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

40 1. For taxpayers that are authorized to pay on a quarterly basis,  
 41 are due and payable monthly in the form required by section 42-5018 for  
 42 the amount of the tax, to the department, on or before the twentieth day  
 43 of the month next succeeding the quarter in which the tax accrues.

44 2. For taxpayers that are authorized to pay on an annual basis, are  
 45 due and payable monthly in the form required by section 42-5018 for the

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

3 3. Are delinquent as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25           2. Remit to the department the aggregate total amount of the  
26 applicable taxes payable pursuant to this chapter and chapter 6 of this  
27 title for all of the respective taxing jurisdictions with respect to the  
28 managed properties.

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

41           H. Any person who is taxable under this article and who makes cash  
42 and credit sales shall report such cash and credit sales separately and on  
43 making application may obtain from the department an extension of time for  
44 payment of taxes due on the credit sales. The extension shall be granted  
45 by the department under such rules as the department prescribes. When the

1 extension is granted, the taxpayer shall thereafter include in each  
2 monthly report all collections made on such credit sales during the month  
3 next preceding and shall pay the taxes due at the time of filing such  
4 report.

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

8 J. Any person who is engaged in or conducting business in two or  
9 more locations or under two or more business names shall file the return  
10 required under this article using an electronic filing program established  
11 by the department.

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

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

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

39 N. For taxable periods beginning from and after December 31, 2020,  
40 any taxpayer with an annual total tax liability under this chapter and  
41 chapter 6 of this title of five hundred dollars or more, based on the  
42 actual tax liability in the preceding calendar year, regardless of the  
43 number of offices at which the taxes imposed by this chapter or chapter 6  
44 of this title are collected, or a taxpayer that can reasonably anticipate  
45 that liability in the current year, shall file the return required under

1 this article using an electronic filing program established by the  
2 department.

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

8 1. The taxpayer has no computer.

9 2. The taxpayer has no internet access.

10 3. Any other circumstance considered to be worthy by the director.

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

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

20 R. The department, with the approval of the attorney general, may  
21 abate small tax balances if the administration costs exceed the amount of  
22 tax due.

23 S. For the purposes of subsection D of this section, "taxpayer"  
24 means the business entity under which the business reports and pays state  
25 income taxes regardless of the number of offices at which the taxes  
26 imposed by this article, article 6 of this chapter or chapter 6, article 3  
27 of this title are collected.

28 Sec. 18. Section 42-5073, Arizona Revised Statutes, is amended to  
29 read:

30 42-5073. Amusement classification

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



1           1. Activities or projects of bona fide religious or educational  
2 institutions.

3           2. Private or group instructional activities. For the purposes of  
4 this paragraph, "private or group instructional activities" includes, but  
5 is not limited to, performing arts, martial arts, gymnastics and aerobic  
6 instruction.

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

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

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

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

27           7. Sales of admissions to intercollegiate football contests if the  
28 contests are both:

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

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

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

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

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

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

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

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

1. The gross proceeds of sales or gross income derived from memberships, including initiation fees, that provide for the right to use a health or fitness establishment or a private recreational establishment, or any portion of an establishment, including tennis and other racquet courts at that establishment, for participatory purposes for twenty-eight days or more and fees charged for use of the health or fitness establishment or private recreational establishment by bona fide accompanied guests of members, except that this paragraph does not include additional fees, other than initiation fees, charged by a health or fitness establishment or a private recreational establishment for purposes other than memberships that provide for the right to use a health or fitness establishment or private recreational establishment, or any portion of an establishment, for participatory purposes for twenty-eight days or more and accompanied guest use fees.

2. Amounts that are exempt under section 5-111, subsection G.

3. The gross proceeds of sales or gross income derived from membership fees, including initiation fees, that provide for the right to use a transient lodging recreational establishment, including golf courses and tennis and other racquet courts at that establishment, for participatory purposes for twenty-eight days or more, except that this paragraph does not include additional fees, other than initiation fees, that are charged by a transient lodging recreational establishment for purposes other than memberships and that provide for the right to use a

transient lodging recreational establishment or any portion of the establishment for participatory purposes for twenty-eight days or more.

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

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

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

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

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

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

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

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

6. The gross proceeds of sales or gross income derived from entry fees paid by participants for events that ~~either:~~

~~(a) Until March 1, 2017, consist of a run, walk, swim or bicycle ride or a similar event, or any combination of these events.~~

~~(b)~~ are operated or conducted by nonprofit organizations that are exempt from taxation under section 501(c)(3) of the internal revenue code and of which no part of the organization's net earnings inures to the benefit of any private shareholder or individual, if the event consists of a run, walk, swim or bicycle ride or a similar event, or any combination of these events.

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

1. "Health or fitness establishment" means a facility whose primary purpose is to provide facilities, equipment, instruction or education to promote the health and fitness of its members and at least eighty percent of the monthly gross revenue of the facility is received through accounts of memberships and accompanied guest use fees that provide for the right to use the facility, or any portion of the facility, under the terms of

1 the membership agreement for participatory purposes for twenty-eight days  
2 or more.

3 2. "Private recreational establishment" means a facility whose  
4 primary purpose is to provide recreational facilities, such as tennis,  
5 golf and swimming, for its members and where at least eighty percent of  
6 the monthly gross revenue of the facility is received through accounts of  
7 memberships and accompanied guest use fees that provide for the right to  
8 use the facility, or any portion of the facility, for participatory  
9 purposes for twenty-eight days or more.

10 3. "Transient lodging recreational establishment" means a facility  
11 whose primary purpose is to provide facilities for transient lodging, that  
12 is subject to taxation under this chapter and that also provides  
13 recreational facilities, such as tennis, golf and swimming, for members  
14 for a period of twenty-eight days or more.

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

27 E. If a person is engaged in the business of offering both  
28 exhibition, amusement or entertainment and private or group instructional  
29 activities, the person's books shall be kept to show separately the gross  
30 income from exhibition, amusement or entertainment and the gross income  
31 from instructional activities. If the books do not provide this separate  
32 accounting, the tax is imposed on the person's total gross income from the  
33 business.

34 F. The department shall separately account for revenues collected  
35 under the amusement classification for the purposes of section 42-5029,  
36 subsection D, paragraph 4, subdivision (b).

37 G. For the purposes of section 42-5032.01, the department shall  
38 separately account for revenues collected under the amusement  
39 classification from sales of admissions to:

40 1. Events that are held in a multipurpose facility that is owned or  
41 operated by the tourism and sports authority pursuant to title 5, chapter  
42 8, including intercollegiate football contests that are operated by a  
43 nonprofit organization that is exempt from taxation under section  
44 501(c)(3) of the internal revenue code.

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

4           Sec. 19. Section 42-6004, Arizona Revised Statutes, is amended to  
5 read:

6           42-6004. Exemption from municipal tax; definitions

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

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

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

19           3. Sales of warranty or service contracts.

20           4. Sales of motor vehicles to nonresidents of this state for use  
21 outside this state if the motor vehicle dealer ships or delivers the motor  
22 vehicle to a destination outside this state.

23           5. Interest on finance contracts.

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

25           7. Sales of food or other items purchased with United States  
26 department of agriculture food stamp coupons issued under the food stamp  
27 act of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under  
28 section 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603;  
29 P.L. 99-661, section 4302; 42 United States Code section 1786) but may  
30 impose such a tax on other sales of food. If a city, town or special  
31 taxing district exempts sales of food from its tax or imposes a different  
32 transaction privilege rate on the gross proceeds of sales or gross income  
33 from sales of food and nonfood items, it shall use the definition of food  
34 prescribed by rule adopted by the department pursuant to section 42-5106.

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

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

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

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

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

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

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

(b) "Affiliated persons" means members of the individual's family or persons who have ownership or control of a business entity.

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

(d) "Members of the individual's family" means the individual's spouse and brothers and sisters, whether by whole or half blood, including adopted persons, ancestors and lineal descendants.

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

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

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

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

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

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

(b) The deduction provided in this paragraph does not include gross proceeds of sales or gross income from the portion of any contracting activity that consists of the development of, or modification to, real property in order to facilitate the installation, assembly, repair,

1 maintenance or removal of machinery, equipment or other tangible personal  
2 property described in section 42-5061, subsection B.

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

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

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

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

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

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

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

25 14. Computer data center equipment sold to the owner, operator or  
26 qualified colocation tenant of a computer data center that is certified by  
27 the Arizona commerce authority under section 41-1519 or an authorized  
28 agent of the owner, operator or qualified colocation tenant during the  
29 qualification period for use in the qualified computer data center. For  
30 the purposes of this paragraph, "computer data center", "computer data  
31 center equipment", "qualification period" and "qualified colocation  
32 tenant" have the same meanings prescribed in section 41-1519.

33 15. The gross proceeds of sales or gross income derived from a  
34 contract with the owner of real property or improvements to real property  
35 for the maintenance, repair, replacement or alteration of existing  
36 property, except as specified in this paragraph. The gross proceeds of  
37 sales or gross income derived from a de minimis amount of modification  
38 activity does not subject the contract or any part of the contract to tax.  
39 For the purposes of this paragraph:

40 (a) Each contract is independent of another contract, except that  
41 any change order that directly relates to the scope of work of the  
42 original contract shall be treated the same as the original contract under  
43 this paragraph, regardless of the amount of modification activities  
44 included in the change order. If a change order does not directly relate  
45 to the scope of work of the original contract, the change order shall be

1 treated as a new contract, with the tax treatment of any subsequent change  
2 order to follow the tax treatment of the contract to which the scope of  
3 work of the subsequent change order directly relates.

4 (b) Any term not defined in this paragraph that is defined in  
5 section 42-5075 has the same meaning prescribed in section 42-5075.

6 (c) This paragraph does not apply to a contract that primarily  
7 involves surface or subsurface improvements to land and that is subject to  
8 title 28, chapter 19, 20 or 22 or title 34, chapter 2 or 6 even if the  
9 contract also includes vertical improvements. If a city or town imposes a  
10 tax on contracts that are subject to procurement processes under those  
11 provisions, the city or town shall include in the request for proposals a  
12 notice to bidders when those projects are subject to the tax. This  
13 subdivision does not apply to contracts with:

14 (i) Community facilities districts, fire districts, county  
15 television improvement districts, community park maintenance districts,  
16 cotton pest control districts, hospital districts, pest abatement  
17 districts, health service districts, agricultural improvement districts,  
18 county free library districts, county jail districts, county stadium  
19 districts, special health care districts, public health services  
20 districts, theme park districts or revitalization districts.

21 (ii) Any special taxing district not specified in item (i) of this  
22 subdivision if the district does not substantially engage in the  
23 modification, maintenance, repair, replacement or alteration of surface or  
24 subsurface improvements to land.

25 16. Monitoring services relating to an alarm system as defined in  
26 section 32-101.

27 17. Tangible personal property, job printing or publications sold to  
28 or purchased by, or tangible personal property leased, rented or licensed  
29 for use to or by, a qualifying health sciences educational institution as  
30 defined in section 42-5001.

31 18. The transfer of title or possession of coal back and forth  
32 between an owner or operator of a power plant and a person who is  
33 responsible for refining coal if both of the following apply:

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

36 (b) The title or possession of the coal is transferred back to the  
37 owner or operator of the power plant after completion of the coal refining  
38 process. For the purposes of this subdivision, "coal refining process"  
39 means the application of a coal additive system that aids the reduction of  
40 power plant emissions during the combustion of coal and the treatment of  
41 flue gas.

42 19. The gross proceeds of sales or gross income from sales of low or  
43 reduced cost articles of food or drink to eligible elderly or homeless  
44 persons or persons with a disability by a business subject to tax under  
45 section 42-5074 that contracts with the department of economic security



and that is approved by the food and nutrition service of the United States department of agriculture pursuant to the supplemental nutrition assistance program established by the food and nutrition act of 2008 (P.L. 110-246; 122 Stat. 1651; 7 United States Code sections 2011 through 2036a), if the purchases are made with the benefits issued pursuant to the supplemental nutrition assistance program.

20. Tangible personal property incorporated or fabricated into a project described in paragraph 15 of this subsection, that is located within the exterior boundaries of an Indian reservation for which the owner, as defined in section 42-5075, of the project is an Indian tribe or an affiliated Indian. For the purposes of this paragraph:

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

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

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

21. The charges for the leasing or renting of space to make attachments to utility poles as follows:

(a) By a person that is engaged in the business of providing or furnishing electrical services or telecommunication services or that is a cable operator.

(b) To a person that is engaged in the business of providing or furnishing electrical services or telecommunication services or that is a cable operator.

~~22. Until March 1, 2017, the gross proceeds of sales or gross income derived from entry fees paid by participants for events that consist of a run, walk, swim or bicycle ride or a similar event, or any combination of these events.~~

~~23.~~ 22. The gross proceeds of sales or gross income derived from entry fees paid by participants for events that are operated or conducted by nonprofit organizations that are exempt from taxation under section 501(c)(3) of the internal revenue code and of which no part of the organization's net earnings inures to the benefit of any private shareholder or individual, if the event consists of a run, walk, swim or bicycle ride or a similar event, or any combination of these events.

B. A city, town or other taxing jurisdiction shall not levy a transaction privilege, sales, use, franchise or other similar tax or fee,

1 however denominated, on natural gas or liquefied petroleum gas used to  
2 propel a motor vehicle.

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

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

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

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

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

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

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

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

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

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

42 7. Any amount attributable to fees collected by transportation  
43 network companies issued a permit pursuant to section 28-9552.

1           8. Transporting for hire persons by transportation network company  
2 drivers on transactions involving transportation network services as  
3 defined in section 28-9551.

4           9. Transporting for hire persons by vehicle for hire companies that  
5 are issued permits pursuant to section 28-9503.

6           10. Transporting for hire persons by vehicle for hire drivers on  
7 transactions involving vehicle for hire services as defined in section  
8 28-9501.

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

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

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

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

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

26           G. For the purposes of this section:

27           1. "Cable operator" has the same meaning prescribed in section  
28 9-505.

29           2. "Electrical services" means transmitting or distributing  
30 electricity, electric lights, current or power over lines, wires or  
31 cables.

32           3. "Telecommunication services" means transmitting or relaying  
33 sound, visual image, data, information, images or material over lines,  
34 wires or cables by radio signal, light beam, telephone, telegraph or other  
35 electromagnetic means.

36           4. "Utility pole" means any wooden, metal or other pole used for  
37 utility purposes and the pole's appurtenances that are attached or  
38 authorized for attachment by the person controlling the pole.

39           Sec. 20. Section 42-11132, Arizona Revised Statutes, is amended to  
40 read:

41           42-11132. Property leased to educational institutions

42           A. Property, buildings and fixtures that are leased to a ~~not for~~  
43 ~~profit~~ NONPROFIT charter school and that are used for educational  
44 instruction in any grade or program through grade twelve shall be  
45 classified as class nine property pursuant to section 42-12009. If only

1 part of a parcel of real property or improvements to real property is  
2 leased for operation of a charter school, only the portion so leased  
3 qualifies as class nine property.

4 B. Property, buildings and fixtures that are owned by an  
5 educational, a religious or a charitable organization, institution or  
6 association and leased to a ~~not for profit~~ NONPROFIT educational  
7 organization, institution or association are exempt from taxation if the  
8 property is used for educational instruction in any grade or program  
9 through grade twelve.

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

23 Sec. 21. Section 42-15010, Arizona Revised Statutes, is amended to  
24 read:

25 42-15010. Applying assessment percentages

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

29 B. IF A PARCEL OF PROPERTY HAS MORE THAN ONE PERCENTAGE APPLIED TO  
30 ITS FULL CASH VALUE UNDER THIS SECTION DUE TO MULTIPLE USES, THE COUNTY  
31 ASSESSOR SHALL APPLY THE PERCENTAGE TO THE LIMITED PROPERTY VALUE OF THE  
32 PARCEL IN THE SAME PROPORTION AND IN THE SAME MANNER AS THE PARCEL'S FULL  
33 CASH VALUE.

34 Sec. 22. Section 43-224, Arizona Revised Statutes, is amended to  
35 read:

36 43-224. Individual and corporate income tax credits; annual  
37 report; termination of unused credits

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

43 B. Except as provided by subsection C of this section, if, in any  
44 four consecutive reports under subsection A of this section, an individual  
45 or corporate income tax credit was not claimed by or allowed to any

individual or corporate taxpayer, the director of the department of revenue shall:

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

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

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

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

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

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

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

Sec. 23. Section 43-309, Arizona Revised Statutes, is amended to read:

43-309. Joint returns of husband and wife

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

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

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

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

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

4 (c) ~~No~~ AN executor or administrator is NOT appointed before the  
5 last day prescribed by law for filing the return of the surviving  
6 spouse. If an executor or administrator of the decedent is appointed  
7 after the making of the joint return by the surviving spouse, the executor  
8 or administrator may disaffirm ~~such~~ THE joint return by making, within one  
9 year after the last day prescribed by law for filing the return of the  
10 surviving spouse, a separate return for the taxable year of the decedent  
11 with respect to which the joint return was made, in which case the return  
12 made by the survivor shall constitute ~~his~~ THE SURVIVOR'S separate return.

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

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

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

20 Sec. 24. Repeal

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

22 Sec. 25. Section 43-901, Arizona Revised Statutes, is amended to  
23 read:

24 43-901. Taxable income computation

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

37 Sec. 26. Repeal

38 Sections 43-902, 43-903 and 43-904, Arizona Revised Statutes, are  
39 repealed.

40 Sec. 27. Renumber

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

1       Sec. 28. Section 43-931, Arizona Revised Statutes, is amended to  
2 read:

3       43-931. Change of accounting period; computation of income;  
4               due date of return

5       ~~A. If a taxpayer, with the approval of the department, changes the~~  
6 ~~basis of computing taxable income from fiscal year to calendar year, a~~  
7 ~~separate return shall be made for the period between the close of the last~~  
8 ~~fiscal year for which return was made and the following December 31. If~~  
9 ~~the change is from calendar year to fiscal year, a separate return shall~~  
10 ~~be made for the period between the close of the last calendar year for~~  
11 ~~which return was made and the date designated as the close of the fiscal~~  
12 ~~year. If the change is from one fiscal year to another fiscal year a~~  
13 ~~separate return shall be made for the period between the close of the~~  
14 ~~former fiscal year and the date designated as the close of the new fiscal~~  
15 ~~year.~~

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

27       Sec. 29. Repeal

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

29       Sec. 30. Renumber

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

32       Sec. 31. Section 43-1021, Arizona Revised Statutes, is amended to  
33 read:

34       43-1021. Addition to Arizona gross income

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

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

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

44       3. The amount of interest income received on obligations of any  
45 state, territory or possession of the United States, or any political

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

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

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

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

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

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

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

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

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

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

13. Any wage expenses deducted pursuant to the internal revenue code for which a credit is claimed under section 43-1087 and representing



1 net increases in qualified employment positions for employment of  
 2 temporary assistance for needy families recipients.

3 14. The amount of any depreciation allowance allowed pursuant to  
 4 section 167(a) of the internal revenue code to the extent not previously  
 5 added.

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

10 ~~16.~~ 15. The amount of a nonqualified withdrawal, as defined in  
 11 section 15-1871, from a college savings plan established pursuant to  
 12 section 529 of the internal revenue code that is made to a distributee to  
 13 the extent the amount is not included in computing federal adjusted gross  
 14 income, except that the amount added under this paragraph shall not exceed  
 15 the difference between the amount subtracted under section 43-1022 in  
 16 prior taxable years and the amount added under this section in any prior  
 17 taxable years.

18 ~~17.~~ 16. The amount of discharge of indebtedness income that is  
 19 deferred and excluded from the computation of federal adjusted gross  
 20 income in the current taxable year pursuant to section 108(i) of the  
 21 internal revenue code as added by section 1231 of the American recovery  
 22 and reinvestment act of 2009 (P.L. 111-5).

23 ~~18.~~ 17. The amount of any previously deferred original issue  
 24 discount that was deducted in computing federal adjusted gross income in  
 25 the current year pursuant to section 108(i) of the internal revenue code  
 26 as added by section 1231 of the American recovery and reinvestment act of  
 27 2009 (P.L. 111-5), to the extent that the amount was previously subtracted  
 28 from Arizona gross income pursuant to section 43-1022, paragraph ~~23~~ 22.

29 ~~19. Amounts that are considered to be income under section 43-1032,~~  
 30 ~~subsection D because the amount is withdrawn from a long-term health care~~  
 31 ~~savings account and not used to pay the taxpayer's long-term health care~~  
 32 ~~expenses.~~

33 ~~20.~~ 18. If a subtraction is or has been taken by the taxpayer  
 34 under section 43-1024, in the current or a prior taxable year for the full  
 35 amount of eligible access expenditures paid or incurred to comply with the  
 36 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)  
 37 or title 41, chapter 9, article 8, any amount of eligible access  
 38 expenditures that is recognized under the internal revenue code, including  
 39 any amount that is amortized according to federal amortization schedules,  
 40 and that is included in computing taxable income for the current taxable  
 41 year.

42 ~~21.~~ 19. For taxable years beginning from and after December 31,  
 43 2017, the amount of any net capital loss included in Arizona gross income  
 44 for the taxable year that is derived from the exchange of one kind of

1 legal tender for another kind of legal tender. For the purposes of this  
2 paragraph:

3 (a) "Legal tender" means a medium of exchange, including specie,  
4 that is authorized by the United States Constitution or Congress for the  
5 payment of debts, public charges, taxes and dues.

6 (b) "Specie" means coins having precious metal content.

7 Sec. 32. Section 43-1022, Arizona Revised Statutes, is amended to  
8 read:

9 43-1022. Subtractions from Arizona gross income

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

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

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

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

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

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

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

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

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

40 7. The amount allowed by section 43-1025 for contributions during  
41 the taxable year of agricultural crops to charitable organizations.

42 8. The portion of any wages or salaries paid or incurred by the  
43 taxpayer for the taxable year that is equal to the amount of the federal  
44 work opportunity credit, the empowerment zone employment credit, the  
45 credit for employer paid social security taxes on employee cash tips and

1 the Indian employment credit that the taxpayer received under sections  
2 45A, 45B, 51(a) and 1396 of the internal revenue code.

3 9. The amount of prizes or winnings less than five thousand dollars  
4 in a single taxable year from any of the state lotteries established and  
5 operated pursuant to title 5, chapter 5.1, article 1.

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

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

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

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

29 14. The amount authorized by section 43-1027 for the taxable year  
30 relating to qualified wood stoves, wood fireplaces or gas fired  
31 fireplaces.

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

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

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

44 18. The amount authorized by section 43-1030 relating to holocaust  
45 survivors.

1           19. For property placed in service:

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

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

19           (c) In taxable years beginning from and after December 31, 2013  
20 through December 31, 2015, an amount equal to the depreciation allowable  
21 pursuant to section 167(a) of the internal revenue code for the taxable  
22 year as computed as if the additional allowance for depreciation had been  
23 ten percent of the amount allowed pursuant to section 168(k) of the  
24 internal revenue code.

25           (d) In taxable years beginning from and after December 31, 2015  
26 through December 31, 2016, an amount equal to the depreciation allowable  
27 pursuant to section 167(a) of the internal revenue code for the taxable  
28 year as computed as if the additional allowance for depreciation had been  
29 fifty-five percent of the amount allowed pursuant to section 168(k) of the  
30 internal revenue code.

31           (e) In taxable years beginning from and after December 31, 2016, an  
32 amount equal to the depreciation allowable pursuant to section 167(a) of  
33 the internal revenue code for the taxable year as computed as if the  
34 additional allowance for depreciation had been the full amount allowed  
35 pursuant to section 168(k) of the internal revenue code.

36           20. With respect to property that is sold or otherwise disposed of  
37 during the taxable year by a taxpayer that complied with section 43-1021,  
38 paragraph 14 with respect to that property, the amount of depreciation  
39 that has been allowed pursuant to section 167(a) of the internal revenue  
40 code to the extent that the amount has not already reduced Arizona taxable  
41 income in the current or prior taxable years.

42           ~~21. With respect to property for which an adjustment was made under~~  
43 ~~section 43-1021, paragraph 15, an amount equal to one-fifth of the amount~~  
44 ~~of the adjustment pursuant to section 43-1021, paragraph 15 in the year in~~

~~which the amount was adjusted under section 43-1021, paragraph 15 and in each of the following four years.~~

~~22.~~ 21. The amount contributed during the taxable year to college savings plans established pursuant to section 529 of the internal revenue code to the extent that the contributions were not deducted in computing federal adjusted gross income. The amount subtracted shall not exceed:

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

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

~~23.~~ 22. The amount of any original issue discount that was deferred and not allowed to be deducted in computing federal adjusted gross income in the current taxable year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5).

~~24.~~ 23. The amount of previously deferred discharge of indebtedness income that is included in the computation of federal adjusted gross income in the current taxable year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was previously added to Arizona gross income pursuant to section 43-1021, paragraph ~~17~~ 16.

~~25.~~ 24. The portion of the net operating loss carryforward that would have been allowed as a deduction in the current year pursuant to section 172 of the internal revenue code if the election described in section 172(b)(1)(H) of the internal revenue code had not been made in the year of the loss that exceeds the actual net operating loss carryforward that was deducted in arriving at federal adjusted gross income. This subtraction only applies to taxpayers who made an election under section 172(b)(1)(H) of the internal revenue code as amended by section 1211 of the American recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by section 13 of the worker, homeownership, and business assistance act of 2009 (P.L. 111-92).

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

~~27.~~ 26. An amount of any net long-term capital gain included in federal adjusted gross income for the taxable year that is derived from an investment in an asset acquired after December 31, 2011, as follows:

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

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

7 (c) For taxable years beginning from and after December 31, 2014,  
 8 twenty-five percent of the net long-term capital gain included in federal  
 9 adjusted gross income. For the purposes of this paragraph, a transferee  
 10 that receives an asset by gift or at the death of a transferor is  
 11 considered to have acquired the asset when the asset was acquired by the  
 12 transferor. If the date an asset is acquired cannot be verified, a  
 13 subtraction under this paragraph is not allowed.

14 ~~28.~~ 27. If an individual is not claiming itemized deductions  
 15 pursuant to section 43-1042, the amount of premium costs for long-term  
 16 care insurance, as defined in section 20-1691.

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

22 ~~30.~~ 28. The amount of eligible access expenditures paid or  
 23 incurred during the taxable year to comply with the requirements of the  
 24 Americans with disabilities act of 1990 (P.L. 101-336) or title 41,  
 25 chapter 9, article 8 as provided by section 43-1024.

26 ~~31.~~ 29. For taxable years beginning from and after December 31,  
 27 2017, the amount of any net capital gain included in Arizona gross income  
 28 for the taxable year that is derived from the exchange of one kind of  
 29 legal tender for another kind of legal tender. For the purposes of this  
 30 paragraph:

31 (a) "Legal tender" means a medium of exchange, including specie,  
 32 that is authorized by the United States Constitution or Congress for the  
 33 payment of debts, public charges, taxes and dues.

34 (b) "Specie" means coins having precious metal content.

35 Sec. 33. Section 43-1024, Arizona Revised Statutes, is amended to  
 36 read:

37 43-1024. Americans with disabilities act access expenditures

38 A. For taxable years beginning from and after December 31, 2017, in  
 39 computing Arizona adjusted gross income, a subtraction is allowed under  
 40 section 43-1022, paragraph ~~30~~ 28 for eligible business access expenditures  
 41 paid or incurred by the taxpayer during the taxable year in order to  
 42 comply with the requirements of the Americans with disabilities act of  
 43 1990 (P.L. 101-336) or title 41, chapter 9, article 8 by retrofitting  
 44 developed real property that was originally placed in service at least ten  
 45 years before the current taxable year.

B. For the purposes of this section, eligible business access expenditures include reasonable and necessary amounts paid or incurred to:

1. Remove any barriers that prevent a business from being accessible to or usable by individuals with disabilities.

2. Provide qualified interpreters or other methods of making audio materials available to hearing-impaired individuals.

3. Provide qualified readers, taped texts and other effective methods of making visually delivered materials available to individuals with visual impairments.

4. Acquire or modify equipment or devices for individuals with disabilities.

5. Provide other similar services, modifications, materials or equipment.

C. A taxpayer who has been cited for noncompliance with the Americans with disabilities act of 1990 or title 41, chapter 9, article 8 by either federal or state enforcement officials is ineligible for a subtraction under this section for any expenditure required to cure the cited violation.

Sec. 34. Repeal

Section 43-1032, Arizona Revised Statutes, is repealed.

Sec. 35. Section 43-1042, Arizona Revised Statutes, is amended to read:

43-1042. Itemized deductions

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

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

~~C. Notwithstanding subsection B of this section, expenses for long-term health care that are paid or reimbursed from the taxpayer's long-term health care savings account pursuant to section 43-1032 shall not be deducted pursuant to this section.~~

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

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

1           Sec. 36. Section 43-1043, Arizona Revised Statutes, is amended to  
2 read:

3           43-1043. Personal exemptions; annual adjustment

4           A. For taxable years ~~prior to~~ BEFORE 2017, there shall be allowed  
5 as an exemption, in the case of:

6           1. A single individual, a personal exemption of two thousand one  
7 hundred dollars.

8           2. A head of a household or a married individual, a personal  
9 exemption of four thousand two hundred dollars under this paragraph. A  
10 husband and wife shall receive but one personal exemption of four thousand  
11 two hundred dollars. If the husband and wife make separate returns, the  
12 personal exemption may be taken by either or divided between them.

13           3. A married couple who claim at least one dependent, an exemption  
14 of six thousand three hundred dollars. If the husband and wife make  
15 separate returns, the personal exemption may be taken by either or divided  
16 between them. An exemption under this paragraph is in lieu of the  
17 exemption under paragraph 2 of this subsection.

18           B. For taxable years beginning from and after December 31, 2016  
19 through December 31, 2017, there is allowed as an exemption, in the case  
20 of:

21           1. A single individual, a personal exemption of two thousand one  
22 hundred fifty dollars.

23           2. A head of a household or a married individual, a personal  
24 exemption of four thousand three hundred dollars under this paragraph. A  
25 husband and wife shall receive but one personal exemption of four thousand  
26 three hundred dollars. If the husband and wife make separate returns, the  
27 personal exemption may be taken by either or divided between them.

28           3. A married couple who claim at least one dependent, an exemption  
29 of six thousand four hundred fifty dollars. If the husband and wife make  
30 separate returns, the personal exemption may be taken by either or divided  
31 between them. An exemption under this paragraph is in lieu of the  
32 exemption under paragraph 2 of this subsection.

33           C. For taxable years beginning from and after December 31, 2017  
34 through December 31, 2018, there is allowed as an exemption, in the case  
35 of:

36           1. A single individual, a personal exemption of two thousand two  
37 hundred dollars.

38           2. A head of a household or a married individual, a personal  
39 exemption of four thousand four hundred dollars under this paragraph. A  
40 husband and wife shall receive but one personal exemption of four thousand  
41 four hundred dollars. If the husband and wife make separate returns, the  
42 personal exemption may be taken by either or divided between them.

43           3. A married couple who claim at least one dependent, an exemption  
44 of six thousand six hundred dollars. If the husband and wife make  
45 separate returns, the personal exemption may be taken by either or divided



1 between them. An exemption under this paragraph is in lieu of the  
2 exemption under paragraph 2 of this subsection.

3 D. For taxable years beginning from and after December 31, 2018,  
4 the department shall adjust the dollar amounts prescribed for each of the  
5 exemptions in subsection C of this section according to the average annual  
6 change in the metropolitan Phoenix consumer price index published by the  
7 United States bureau of labor statistics. **THE REVISED DOLLAR AMOUNTS  
8 SHALL BE RAISED TO THE NEAREST WHOLE DOLLAR. THE DESIGNATED DOLLAR  
9 AMOUNTS MAY NOT BE REVISED BELOW THE AMOUNTS ALLOWED BY THE PERSONAL  
10 EXEMPTION IN THE PRIOR TAXABLE YEAR.**

11 Sec. 37. Section 43-1074, Arizona Revised Statutes, is amended to  
12 read:

13 **43-1074. Credit for new employment**

14 A. For taxable years beginning from and after June 30, 2011, a  
15 credit is allowed against the taxes imposed by this title for net  
16 increases in full-time employees residing in this state and hired in  
17 qualified employment positions in this state as computed and certified by  
18 the Arizona commerce authority pursuant to section 41-1525.

19 B. Subject to subsection F of this section, the amount of the  
20 credit is equal to:

21 1. Three thousand dollars for each full-time employee hired in a  
22 qualified employment position in the first year or partial year of  
23 employment. Employees hired in the last ninety days of the taxable year  
24 are excluded for that taxable year and are considered to be new employees  
25 in the following taxable year.

26 2. Three thousand dollars for each full-time employee in a  
27 qualified employment position for the full taxable year in the second year  
28 of continuous employment.

29 3. Three thousand dollars for each full-time employee in a  
30 qualified employment position for the full taxable year in the third year  
31 of continuous employment.

32 C. The capital investment and the new qualified employment  
33 positions requirements of section 41-1525, subsection B must be  
34 accomplished within twelve months after the start of the required capital  
35 investment. ~~No~~ A credit may NOT be claimed until both requirements are  
36 met. A business that meets the requirements of section 41-1525,  
37 subsection B for a location is eligible to claim first year credits for  
38 three years beginning with the taxable year in which those requirements  
39 are completed. Employees hired at the location before the beginning of  
40 the taxable year but during the twelve-month period allowed in this  
41 subsection are considered to be new employees for the taxable year in  
42 which all of those requirements are completed. The employees that are  
43 considered to be new employees for the taxable year under this subsection  
44 shall not be included in the average number of full-time employees during  
45 the immediately preceding taxable year until the taxable year in which all

1 of the requirements of section 41-1525, subsection B are completed. An  
 2 employee working at a temporary ~~work site~~ WORKSITE in this state while the  
 3 designated location is under construction is considered to be working at  
 4 the designated location if all of the following occur:

5 1. The employee is hired after the start of the required investment  
 6 at the designated location.

7 2. The employee is hired to work at the designated location after  
 8 it is completed.

9 3. The payroll for the employees destined for the designated  
 10 location is segregated from other employees.

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

13 D. To qualify for a credit under this section, the taxpayer and the  
 14 employment positions must meet the requirements prescribed by section  
 15 41-1525.

16 E. A credit is allowed for employment in the second and third year  
 17 only for qualified employment positions for which a credit was claimed and  
 18 allowed in the first year.

19 F. The net increase in the number of qualified employment positions  
 20 is the lesser of the total number of filled qualified employment positions  
 21 created at the designated location or locations during the taxable year or  
 22 the difference between the average number of full-time employees in this  
 23 state in the current taxable year and the average number of full-time  
 24 employees in this state during the immediately preceding taxable year.  
 25 The net increase in the number of qualified employment positions computed  
 26 under this subsection may not exceed the difference between the average  
 27 number of full-time employees in this state in the current taxable year  
 28 and the average number of full-time employees in this state during the  
 29 immediately preceding taxable year.

30 ~~G. A taxpayer who claims a credit under section 43-1079 or~~  
 31 ~~43-1083.01 shall not claim a credit under this section with respect to the~~  
 32 ~~same employment positions.~~

33 ~~H.~~ G. If the allowable tax credit exceeds the income taxes  
 34 otherwise due on the claimant's income, or if there are no state income  
 35 taxes due on the claimant's income, the amount of the claim not used as an  
 36 offset against the income taxes may be carried forward as a tax credit  
 37 against subsequent years' income tax liability for a period not exceeding  
 38 five taxable years.

39 ~~I.~~ H. Co-owners of a business, including partners in a partnership  
 40 and shareholders of an S corporation, as defined in section 1361 of the  
 41 internal revenue code, may each claim only the pro rata share of the  
 42 credit allowed under this section based on the ownership interest. The  
 43 total of the credits allowed all such owners of the business may not  
 44 exceed the amount that would have been allowed for a sole owner of the  
 45 business.

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

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

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

~~M.~~ L. For the purposes of subsection B, paragraphs 2 and 3 of this section, if a full-time employee in the qualified employment position leaves during the taxable year, the employee may be replaced with another new full-time employee in the same employment position and the new employee will be treated as being in ~~their~~ THE EMPLOYEE'S second or third full year of continuous employment for the purposes of the credit under this section if:

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

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

Sec. 38. Section 43-1074.01, Arizona Revised Statutes, is amended to read:

43-1074.01. Credit for increased research activities

A. A credit is allowed against the taxes imposed by this title in an amount determined pursuant to section 41 of the internal revenue code, except that:

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

(a) If the excess is two million five hundred thousand dollars or less:

(i) For taxable years ~~through December 31, 2017, the credit is equal to twenty percent of that amount.~~

1 ~~(ii) For taxable years beginning from and after December 31, 2017~~  
2 ~~through~~ BEGINNING BEFORE December 31, 2021, the credit is equal to  
3 twenty-four percent of that amount.

4 ~~(iii)~~ (ii) For taxable years beginning from and after December 31,  
5 2021, the credit is equal to twenty percent of that amount.

6 (b) If the excess is over two million five hundred thousand  
7 dollars:

8 (i) For taxable years ~~through December 31, 2017, the credit is~~  
9 ~~equal to five hundred thousand dollars plus eleven percent of any amount~~  
10 ~~exceeding two million five hundred thousand dollars.~~

11 ~~(ii) For taxable years beginning from and after December 31, 2017,~~  
12 ~~through~~ BEGINNING BEFORE December 31, 2021, the credit is equal to six  
13 hundred thousand dollars plus fifteen percent of any amount exceeding two  
14 million five hundred thousand dollars.

15 ~~(iii)~~ (ii) For taxable years beginning from and after December 31,  
16 2021, the credit is equal to five hundred thousand dollars plus eleven  
17 percent of any amount exceeding two million five hundred thousand dollars.

18 (c) For taxable years beginning from and after December 31, 2011,  
19 an additional credit amount is allowed if the taxpayer made basic research  
20 payments during the taxable year to a university under the jurisdiction of  
21 the Arizona board of regents. The additional credit amount is equal to  
22 ten percent of the excess, if any, of the basic research payments over the  
23 qualified organization base period amount for the taxable year. The  
24 department shall not allow credit amounts under this subdivision and  
25 section 43-1168, subsection A, paragraph 1, subdivision (d) that exceed,  
26 in the aggregate, a combined total of ten million dollars in any calendar  
27 year. Subject to that limit, on application by the taxpayer, the  
28 department shall certify credit amounts under this subdivision and section  
29 43-1168, subsection A, paragraph 1, subdivision (d) based on priority  
30 placement established by the date that the taxpayer filed the application.  
31 For taxable years beginning from and after December 31, 2014, any basic  
32 research payments used to determine the additional credit under this  
33 subdivision must first receive certification from the Arizona commerce  
34 authority pursuant to section 41-1507.01. The additional credit amount  
35 under this subdivision shall not exceed the amount allowed based on actual  
36 basic research payments or the department's certification, whichever is  
37 less. If an application, if certified in full, would exceed the ten  
38 million dollar limit, the department shall certify only an amount within  
39 that limit. After the limit is attained, the department shall deny any  
40 subsequent applications regardless of whether other certified amounts are  
41 not actually claimed as a credit or other taxpayers fail to qualify to  
42 actually claim certified amounts. Notwithstanding subsections B and C of  
43 this section, any amount of the additional credit under this subdivision  
44 that exceeds the taxes otherwise due under this title is not refundable,  
45 but may be carried forward to the next five consecutive taxable years.

For the purposes of this subdivision, "basic research payments" and "qualified organization base period amount" have the same meanings prescribed by section 41(e) of the internal revenue code without regard to whether the taxpayer is or is not a corporation.

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 39. Section 43-1076, Arizona Revised Statutes, is amended to read:

43-1076. Credit for employment by a healthy forest enterprise

~~A. In addition to the credit allowed by section 43-1076.01,~~ For taxable years beginning from and after December 31, 2004 through December 31, 2024, a credit is allowed against the taxes imposed by this title for net increases in qualified employment positions by a qualified business that is certified by the Arizona commerce authority as a healthy forest enterprise pursuant to section 41-1516.

B. Subject to subsection E of this section, the amount of the credit is equal to:

1. One-fourth of the taxable wages paid to an employee in a qualified employment position, not to exceed five hundred dollars per qualified employment position, in the first year or partial year of employment.

2. One-third of the taxable wages paid to an employee in a qualified employment position, not to exceed one thousand dollars per qualified employment position, in the second year of continuous employment.

3. One-half of the taxable wages paid to an employee in a qualified employment position, not to exceed one thousand five hundred dollars per qualified employment position, in the third year of continuous employment.

C. To qualify for a credit under this section:

1. The business must employ at least one new full-time employee in a qualified employment position in the first taxable year in which the credit is claimed.

2. Each employee with respect to whom a credit is claimed must reside in this state on the date of hire.

3. A qualified employment position must meet all of the following requirements:

(a) The position must be full-time employment for a minimum of one thousand five hundred fifty hours per year, unless a shorter period of

1 employment is due to forest closures or weather conditions beyond the  
2 taxpayer's control.

3 (b) The job duties must primarily involve or directly support  
4 harvesting, transporting or processing qualifying forest products removed  
5 from qualifying projects as defined in section 41-1516 into a product  
6 having commercial value.

7 (c) The employer must pay compensation at least equal to the wage  
8 offer by county as computed annually by the department of economic  
9 security research administration division.

10 (d) The employee must have been employed for at least ninety days  
11 during the first taxable year. An employee who is hired during the last  
12 ninety days of the taxable year shall be considered a new employee during  
13 the next taxable year. A qualified employment position that is filled  
14 during the last ninety days of the taxable year is considered to be a new  
15 qualified employment position for the next taxable year.

16 (e) The employee has not been previously employed by the taxpayer  
17 within twelve months before the current date of hire.

18 4. The employer shall provide health insurance coverage for  
19 employees as follows:

20 (a) The employer shall pay:

21 (i) At least twenty-five ~~per cent~~ PERCENT of the premium or  
22 membership cost of the insurance program in the third year the taxpayer  
23 claims a credit under this section. If the taxpayer is self-insured, the  
24 taxpayer must pay at least twenty-five ~~per cent~~ PERCENT of a predetermined  
25 fixed cost per employee for an insurance program that is payable whether  
26 or not the employee has filed claims.

27 (ii) At least forty ~~per cent~~ PERCENT of the premium or membership  
28 cost in the fourth year the taxpayer claims a credit under this section.  
29 If the taxpayer is self-insured, the taxpayer must pay at least forty ~~per~~  
30 ~~cent~~ PERCENT of a predetermined fixed cost per employee for an insurance  
31 program that is payable whether or not the employee has filed claims.

32 (iii) At least fifty ~~per cent~~ PERCENT of the premium or membership  
33 cost of the insurance program in the fifth and each subsequent year the  
34 taxpayer claims a credit under this section. If the taxpayer is  
35 self-insured, the taxpayer must pay at least fifty ~~per cent~~ PERCENT of a  
36 predetermined fixed cost per employee for an insurance program that is  
37 payable whether or not the employee has filed claims.

38 (b) An employer shall not reduce the amount of health insurance  
39 coverage provided to employees before certification by the Arizona  
40 commerce authority.

41 D. A credit is allowed for employment in the second and third year  
42 only for qualified employment positions for which a credit was allowed and  
43 claimed by the taxpayer on the original first and second year tax returns.

1           E. The net increase in the number of qualified employment positions  
2 is the lesser of the total number of filled qualified employment positions  
3 created during the taxable year or the difference between the average  
4 number of full-time employees in the current taxable year and the average  
5 number of full-time employees during the immediately preceding taxable  
6 year. The net increase in the number of qualified employment positions  
7 computed under this subsection may not exceed two hundred qualified  
8 employment positions per taxpayer each year.

9           F. A taxpayer who claims a credit under section 43-1074 ~~or 43-1079~~  
10 may not claim a credit under this section with respect to the same  
11 employees.

12           G. If the allowable tax credit exceeds the income taxes otherwise  
13 due on the claimant's income, or if there are no state income taxes due on  
14 the claimant's income, the amount of the claim not used as an offset  
15 against income taxes may be carried forward as a tax credit against  
16 subsequent years' income tax liability for the period not to exceed five  
17 taxable years, provided the business maintains its certification under  
18 section 41-1516.

19           H. Co-owners of a business, including partners in a partnership and  
20 shareholders of an S corporation as defined in section 1361 of the  
21 internal revenue code, may each claim only the pro rata share of the  
22 credit allowed under this section based on the ownership interest. The  
23 total of the credits allowed all such owners of the business may not  
24 exceed the amount that would have been allowed for a sole owner of the  
25 business.

26           I. If a qualified business changes ownership through  
27 reorganization, stock purchase or merger, the new taxpayer may claim first  
28 year credits only for one or more qualified employment positions that it  
29 created and filled with an eligible employee after the purchase or  
30 reorganization was complete. If a person purchases a business that had  
31 qualified for first or second year credits or changes ownership through  
32 reorganization, stock purchase or merger, the new taxpayer may claim the  
33 second or third year credits if it meets the other eligibility  
34 requirements of this section. Credits for which a taxpayer qualified  
35 before the changes described in this subsection are terminated and lost at  
36 the time the changes are implemented.

37           J. If, within five taxable years after first receiving a credit  
38 pursuant to this section, the certification of qualification of a business  
39 is terminated or revoked under section 41-1516 other than for reasons  
40 beyond the control of the business as determined by the Arizona commerce  
41 authority, the credits allowed the business pursuant to this section are  
42 subject to recapture pursuant to this subsection. This subsection applies  
43 only in the case of the termination or revocation of a certification of  
44 qualification. This subsection does not apply if, in any taxable year, a  
45 taxpayer otherwise does not qualify for or fails to claim the credit under



1 this section. The recapture of credits under this subsection is computed  
 2 by increasing the amount of taxes imposed in the year following the year  
 3 in which the qualification of the business was terminated or revoked by an  
 4 amount determined by multiplying the full amount of all credits previously  
 5 allowed under this section by a percentage determined as follows:

6 1. If the initial credit under this section was allowed for the  
 7 taxable year immediately preceding the taxable year in which the  
 8 certification of qualification of a business is terminated or revoked, one  
 9 hundred ~~per cent~~ PERCENT.

10 2. If the initial credit under this section was allowed two taxable  
 11 years before the taxable year in which the certification of qualification  
 12 of a business is terminated or revoked, eighty ~~per cent~~ PERCENT.

13 3. If the initial credit under this section was allowed three  
 14 taxable years before the taxable year in which the certification of  
 15 qualification of a business is terminated or revoked, sixty ~~per~~  
 16 ~~cent~~ PERCENT.

17 4. If the initial credit under this section was allowed four  
 18 taxable years before the taxable year in which the certification of  
 19 qualification of a business is terminated or revoked, forty ~~per cent~~  
 20 PERCENT.

21 5. If the initial credit under this section was allowed five  
 22 taxable years before the taxable year in which the certification of  
 23 qualification of a business is terminated or revoked, twenty ~~per cent~~  
 24 PERCENT.

25 Sec. 40. Section 43-1083, Arizona Revised Statutes, is amended to  
 26 read:

27 43-1083. Credit for solar energy devices

28 A. A credit is allowed against the taxes imposed by this title for  
 29 each resident who is not a dependent of another taxpayer for installing a  
 30 solar energy device, as defined in section 42-5001, during the taxable  
 31 year in the taxpayer's residence located in this state. The credit is  
 32 equal to twenty-five ~~per cent~~ PERCENT of the cost of the device.

33 B. The maximum credit in a taxable year may not exceed one thousand  
 34 dollars. The person who provides the solar energy device shall furnish  
 35 the taxpayer with an accounting of the cost to the taxpayer. A taxpayer  
 36 may claim the credit under this section only once in a tax year and may  
 37 not cumulate over different tax years tax credits under this section  
 38 exceeding, in the aggregate, one thousand dollars for the same residence.

39 C. If the allowable tax credit exceeds the taxes otherwise due  
 40 under this title on the claimant's income, or if there are no taxes due  
 41 under this title, the amount of the claim not used to offset taxes under  
 42 this title may be carried forward for not more than five consecutive  
 43 taxable years as a credit against subsequent years' income tax liability.

D. A husband and wife who file separate returns for a taxable year in which they could have filed a joint return may each claim only one-half of the tax credit that would have been allowed for a joint return.

E. The credit allowed under this section is in lieu of any allowance for state tax purposes for exhaustion, wear and tear of the solar energy device under section 167 of the internal revenue code.

F. To qualify for the credit under this section the solar energy device and its installation shall meet the requirements of title 44, chapter 11, article 11.

G. A solar hot water heater plumbing stub out that was installed by the builder of a house or dwelling unit before title was conveyed to the taxpayer does not qualify for a credit under this section, ~~but the taxpayer may claim a credit for the device under section 43-1090 or 43-1176 under the circumstances, conditions and limitations prescribed by section 43-1090, subsection C or 43-1176, subsection C, as applicable.~~

Sec. 41. Section 43-1083.03, Arizona Revised Statutes, is amended to read:

43-1083.03. Credit for qualified facilities

A. For taxable years beginning from and after December 31, 2012 through December 31, 2022, a credit is allowed against the taxes imposed by this title for qualifying investment and employment in expanding or locating a qualified facility in this state. To qualify for the credit, after June 30, 2012 the taxpayer must invest in a new qualified facility or expand an existing qualified facility in this state and produce new full-time employment positions where the job duties are performed at the location of the qualifying investment. The taxpayer must meet the employee compensation and employee health benefit requirements prescribed by section 41-1512.

B. The amount of the credit is computed as follows:

1. Ten percent of the lesser of:

(a) The total qualifying investment in the qualified facility.

(b) Two hundred thousand dollars for each net new full-time employment position at the qualified facility.

2. The amount of the credit shall not exceed the postapproval amount determined by the Arizona commerce authority under section 41-1512, subsection P.

3. Subject to subsections G and J of this section:

(a) The credit amount computed under paragraph 1 of this subsection is apportioned, and the taxpayer shall claim the credit in five equal annual installments in each of five consecutive taxable years.

(b) The taxpayer may claim all five annual installments of a credit that was preapproved before January 1, 2023 by the Arizona commerce authority notwithstanding any intervening repeal or other termination of the credit.

1 C. To claim the credit the taxpayer must:  
2 1. Conduct a business that qualifies under section 41-1512.  
3 2. Receive preapproval and postapproval from the Arizona commerce  
4 authority pursuant to section 41-1512.  
5 3. Submit to the department a copy of a current and valid  
6 certification of qualification issued to the taxpayer by the Arizona  
7 commerce authority.  
8 D. To be counted for the purposes of the credit, an employee must  
9 have been employed at the qualified facility for at least ninety days  
10 during the taxable year in a permanent full-time employment position of at  
11 least one thousand seven hundred fifty hours per year. An employee who is  
12 hired during the last ninety days of the taxable year shall be considered  
13 a new employee during the next taxable year. To be counted for the  
14 purposes of the credit during the first taxable year of employment, the  
15 employee must not have been previously employed by the taxpayer within  
16 twelve months before the current date of hire. The terms of employment  
17 must comply in all cases with the requirements of section 41-1512 and be  
18 certified by the Arizona commerce authority.  
19 E. Co-owners of a business, including partners in a partnership,  
20 members of a limited liability company and shareholders of an  
21 S corporation, as defined in section 1361 of the internal revenue code,  
22 may each claim only the pro rata share of the credit allowed under this  
23 section based on the ownership interest. The total of the credits allowed  
24 all owners of the business may not exceed the amount that would have been  
25 allowed for a sole owner of the business.  
26 F. If the allowable tax credit for a taxable year exceeds the  
27 income taxes otherwise due on the claimant's income, or if there are no  
28 state income taxes due on the claimant's income, the amount of the claim  
29 not used as an offset against income taxes shall be paid to the taxpayer  
30 in the same manner as a refund under section 42-1118. Refunds made  
31 pursuant to this subsection are subject to setoff under section 42-1122.  
32 If the department determines that a refund is incorrect or invalid, the  
33 excess refund may be treated as a tax deficiency pursuant to section  
34 42-1108.  
35 G. Except as provided by subsection H of this section, if, within  
36 five taxable years after first receiving a credit pursuant to this  
37 section, the certification of qualification of a business is terminated or  
38 revoked under section 41-1512, other than for reasons beyond the control  
39 of the business as determined by the Arizona commerce authority, the  
40 taxpayer is disqualified from credits under this section in subsequent  
41 taxable years. On a determination that the taxpayer has committed fraud  
42 or relocated outside of this state within five taxable years after first  
43 receiving a credit pursuant to this section, the credits allowed the  
44 taxpayer in all taxable years pursuant to this section are subject to  
45 recapture pursuant to this subsection. This subsection applies only in

1 the case of the termination or revocation of a certification of  
 2 qualification under section 41-1512. This subsection does not apply if,  
 3 in any taxable year, a taxpayer otherwise does not qualify for or fails to  
 4 claim the credit under this section. The recapture of credits is computed  
 5 by increasing the amount of taxes imposed in the year following the year  
 6 of termination or revocation by the full amount of all credits previously  
 7 allowed under this section.

8 H. A taxpayer who claims a credit under section 43-1074, ~~43-1079 or~~  
 9 ~~43-1083.01~~ may not claim a credit under this section with respect to the  
 10 same full-time employment positions.

11 I. The department of revenue shall adopt rules and prescribe forms  
 12 and procedures as necessary for the purposes of this section. The  
 13 department of revenue and the Arizona commerce authority shall collaborate  
 14 in adopting rules as necessary to avoid duplication and contradictory  
 15 requirements while accomplishing the intent and purposes of this section.

16 J. Each taxable year after the postapproval of the credit under  
 17 section 41-1512, subsection P, when the taxpayer files the taxpayer's  
 18 income tax return, the taxpayer shall:

19 1. Notify the department, on a form prescribed by the department,  
 20 of any full-time employment position for which a credit was claimed under  
 21 this section and that was vacant for more than one hundred fifty days from  
 22 the date the full-time employment position was originally filled to the  
 23 end of that taxable year. The period that a full-time employment position  
 24 was vacant may not include the period before the full-time employment  
 25 position was filled for the first time.

26 2. Reduce the portion of the credit claimed for the taxable year  
 27 pursuant to subsection B, paragraph 3 of this section by four thousand  
 28 dollars for each full-time employment position reported pursuant to  
 29 paragraph 1 of this subsection.

30 Sec. 42. Section 43-1121, Arizona Revised Statutes, is amended to  
 31 read:

32 43-1121. Additions to Arizona gross income: corporations

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

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

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

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

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

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

~~6.~~ 5. The amount of discharge of indebtedness income that is deferred and excluded from the computation of federal taxable income in the current taxable year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5).

~~7.~~ 6. The amount of any previously deferred original issue discount that was deducted in computing federal taxable income in the current year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was previously subtracted from Arizona gross income pursuant to section 43-1122, paragraph ~~7~~ 6.

~~8.~~ 7. The amount of dividend income received from corporations and allowed as a deduction pursuant to sections 243, ~~244~~ and 245 of the internal revenue code.

~~9.~~ 8. Taxes that are based on income paid to states, local governments or foreign governments and that were deducted in computing federal taxable income.

~~10.~~ 9. Expenses and interest relating to tax-exempt income on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from the tax imposed by this title. Financial institutions, as defined in section 6-101, shall be governed by section 43-961, paragraph 2.

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

~~12.~~ 11. The amount of net operating loss taken pursuant to section 172 of the internal revenue code.

~~13.~~ 12. The amount of exploration expenses determined pursuant to section 617 of the internal revenue code to the extent that they exceed seventy-five thousand dollars and to the extent that the election is made to defer those expenses not in excess of seventy-five thousand dollars.

~~14.~~ 13. Amortization of costs incurred to install pollution control devices and deducted pursuant to the internal revenue code or the amount of deduction for depreciation taken pursuant to the internal revenue code on pollution control devices for which an election is made pursuant to section 43-1129.

~~15.~~ 14. The amount of depreciation or amortization of costs of child care facilities deducted pursuant to section 167 or 188 of the internal revenue code for which an election is made to amortize pursuant to section 43-1130.

~~16.~~ 15. The loss of an insurance company that is exempt under section 43-1201 to the extent that it is included in computing Arizona gross income on a consolidated return pursuant to section 43-947.

~~17.~~ 16. The amount by which the depreciation or amortization computed under the internal revenue code with respect to property for which a credit was taken under section 43-1169 exceeds the amount of depreciation or amortization computed pursuant to the internal revenue code on the Arizona adjusted basis of the property.

~~18.~~ 17. The amount by which the adjusted basis computed under the internal revenue code with respect to property for which a credit was claimed under section 43-1169 and that is sold or otherwise disposed of during the taxable year exceeds the adjusted basis of the property computed under section 43-1169.

~~19.~~ 18. The amount by which the depreciation or amortization computed under the internal revenue code with respect to property for which a credit was taken under either section 43-1170 or 43-1170.01 exceeds the amount of depreciation or amortization computed pursuant to the internal revenue code on the Arizona adjusted basis of the property.

~~20.~~ 19. The amount by which the adjusted basis computed under the internal revenue code with respect to property for which a credit was claimed under either section 43-1170 or 43-1170.01 and that is sold or otherwise disposed of during the taxable year exceeds the adjusted basis of the property computed under section 43-1170 or 43-1170.01, as applicable.

~~21.~~ 20. The deduction referred to in section 1341(a)(4) of the internal revenue code for restoration of a substantial amount held under a claim of right.

~~22.~~ 21. The amount by which a capital loss carryover allowable pursuant to section 1341(b)(5) of the internal revenue code exceeds the

capital loss carryover allowable pursuant to section 43-1130.01, subsection F.

~~23.~~ 22. Any wage expenses deducted pursuant to the internal revenue code for which a credit is claimed under section 43-1175 and representing net increases in qualified employment positions for employment of temporary assistance for needy families recipients.

~~24.~~ 23. Any amount of expenses that were deducted pursuant to the internal revenue code and for which a credit is claimed under section 43-1178.

~~25.~~ 24. The amount of any deduction that is claimed in computing Arizona gross income and that represents a donation of a school site for which a credit is claimed under section 43-1181.

~~26.~~ 25. Any amount deducted pursuant to section 170 of the internal revenue code representing contributions to a school tuition organization for which a credit is claimed under section 43-1183 or 43-1184.

~~27.~~ 26. If a subtraction is or has been taken by the taxpayer under section 43-1124, in the current or a prior taxable year for the full amount of eligible access expenditures paid or incurred to comply with the requirements of the Americans with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9, article 8, any amount of eligible access expenditures that is recognized under the internal revenue code, including any amount that is amortized according to federal amortization schedules, and that is included in computing Arizona taxable income for the current taxable year.

~~28.~~ 27. For taxable years beginning from and after December 31, 2017, the amount of any net capital loss included in Arizona gross income for the taxable year that is derived from the exchange of one kind of legal tender for another kind of legal tender. For the purposes of this paragraph:

(a) "Legal tender" means a medium of exchange, including specie, that is authorized by the United States Constitution or Congress for the payment of debts, public charges, taxes and dues.

(b) "Specie" means coins having precious metal content.

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

43-1122. Subtractions from Arizona gross income; corporations

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

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

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

1           3. The amount allowed by section 43-1025 for contributions during  
2 the taxable year of agricultural crops to charitable organizations.

3           4. The portion of any wages or salaries paid or incurred by the  
4 taxpayer for the taxable year that is equal to the amount of the federal  
5 work opportunity credit, the empowerment zone employment credit, the  
6 credit for employer paid social security taxes on employee cash tips and  
7 the Indian employment credit that the taxpayer received under sections  
8 45A, 45B, 51(a) and 1396 of the internal revenue code.

9           5. With respect to property that is sold or otherwise disposed of  
10 during the taxable year by a taxpayer that complied with section 43-1121,  
11 paragraph 4 with respect to that property, the amount of depreciation that  
12 has been allowed pursuant to section 167(a) of the internal revenue code  
13 to the extent that the amount has not already reduced Arizona taxable  
14 income in the current taxable year or prior taxable years.

15           ~~6. With respect to property for which an adjustment was made under~~  
16 ~~section 43-1121, paragraph 5, an amount equal to one-fifth of the amount~~  
17 ~~of the adjustment pursuant to section 43-1121, paragraph 5 in the year in~~  
18 ~~which the amount was adjusted under section 43-1121, paragraph 5 and in~~  
19 ~~each of the following four years.~~

20           ~~7.~~ 6. The amount of any original issue discount that was deferred  
21 and not allowed to be deducted in computing federal taxable income in the  
22 current taxable year pursuant to section 108(i) of the internal revenue  
23 code as added by section 1231 of the American recovery and reinvestment  
24 act of 2009 (P.L. 111-5).

25           ~~8.~~ 7. The amount of previously deferred discharge of indebtedness  
26 income that is included in the computation of federal taxable income in  
27 the current taxable year pursuant to section 108(i) of the internal  
28 revenue code as added by section 1231 of the American recovery and  
29 reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was  
30 previously added to Arizona gross income pursuant to section 43-1121,  
31 paragraph ~~6~~ 5.

32           ~~9.~~ 8. With respect to a financial institution as defined in  
33 section 6-101, expenses and interest relating to tax-exempt income  
34 disallowed pursuant to section 265 of the internal revenue code.

35           ~~10.~~ 9. Dividends received from another corporation owned or  
36 controlled directly or indirectly by a recipient corporation. For the  
37 purposes of this paragraph, "control" means direct or indirect ownership  
38 or control of fifty percent or more of the voting stock of the payor  
39 corporation by the recipient corporation. Dividends shall have the  
40 meaning provided in section 316 of the internal revenue code. This  
41 subtraction shall apply without regard to section 43-961, paragraph 2 and  
42 article 4 of this chapter.

43           ~~11.~~ 10. Interest income received on obligations of the United  
44 States.



1       ~~12.~~ 11. The amount of dividend income from foreign corporations.  
2       ~~13.~~ 12. The amount of net operating loss allowed by section  
3 43-1123.  
4       ~~14.~~ 13. The amount of any state income tax refunds received that  
5 were included as income in computing federal taxable income.  
6       ~~15.~~ 14. The amount of expense recapture included in income  
7 pursuant to section 617 of the internal revenue code for mine exploration  
8 expenses.  
9       ~~16.~~ 15. The amount of deferred exploration expenses allowed by  
10 section 43-1127.  
11       ~~17.~~ 16. The amount of exploration expenses related to the  
12 exploration of oil, gas or geothermal resources, computed in the same  
13 manner and on the same basis as a deduction for mine exploration pursuant  
14 to section 617 of the internal revenue code. This computation is subject  
15 to the adjustments contained in section 43-1121, paragraph ~~13~~ 12 and  
16 paragraphs ~~15~~ 14 and ~~16~~ 15 of this section relating to exploration  
17 expenses.  
18       ~~18.~~ 17. The amortization of pollution control devices allowed by  
19 section 43-1129.  
20       ~~19.~~ 18. The amount of amortization of the cost of child care  
21 facilities pursuant to section 43-1130.  
22       ~~20.~~ 19. The amount of income from a domestic international sales  
23 corporation required to be included in the income of its shareholders  
24 pursuant to section 995 of the internal revenue code.  
25       ~~21.~~ 20. The income of an insurance company that is exempt under  
26 section 43-1201 to the extent that it is included in computing Arizona  
27 gross income on a consolidated return pursuant to section 43-947.  
28       ~~22.~~ 21. The amount by which a capital loss carryover allowable  
29 pursuant to section 43-1130.01, subsection F exceeds the capital loss  
30 carryover allowable pursuant to section 1341(b)(5) of the internal revenue  
31 code.  
32       ~~23.~~ 22. An amount equal to the depreciation allowable pursuant to  
33 section 167(a) of the internal revenue code for the taxable year computed  
34 as if the election described in section ~~168(k)(2)(D)(iii)~~ 168(k)(7) of the  
35 internal revenue code had been made for each applicable class of property  
36 in the year the property was placed in service.  
37       ~~24.~~ 23. The amount of eligible access expenditures paid or  
38 incurred during the taxable year to comply with the requirements of the  
39 Americans with disabilities act of 1990 (P.L. 101-336) or title 41,  
40 chapter 9, article 8 as provided by section 43-1124.  
41       ~~25.~~ 24. For taxable years beginning from and after December 31,  
42 2017, the amount of any net capital gain 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:

(a) "Legal tender" means a medium of exchange, including specie, that is authorized by the United States Constitution or Congress for the payment of debts, public charges, taxes and dues.

(b) "Specie" means coins having precious metal content.

Sec. 44. Section 43-1123, Arizona Revised Statutes, is amended to read:

43-1123. Net operating loss; definition

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

1. In the case of a taxpayer who has a net operating loss for the taxable year within the meaning of section 172(c) of the internal revenue code, the amount of the net operating loss increased by the subtractions specified in section 43-1122, except the subtraction allowed in section 43-1122, paragraph ~~13~~ 12, and reduced by the additions specified in section 43-1121.

2. In the case of a taxpayer not described in paragraph 1 of this subsection, any excess of the subtractions specified in section 43-1122, except the subtraction allowed in section 43-1122, paragraph ~~13~~ 12, over the sum of the Arizona gross income plus the additions specified in section 43-1121.

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

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

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

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

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

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

Sec. 45. Section 43-1124, Arizona Revised Statutes, is amended to read:

43-1124. Americans with disabilities act access expenditures

A. For taxable years beginning from and after December 31, 2017, in computing Arizona taxable income, a subtraction is allowed under section 43-1122, paragraph ~~24~~ 23 for eligible business access expenditures paid or incurred by the taxpayer during the taxable year in order to comply with the requirements of the Americans with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9, article 8 by retrofitting developed

1 real property that was originally placed in service at least ten years  
2 before the current taxable year.

3 B. For the purposes of this section, eligible business access  
4 expenditures include reasonable and necessary amounts paid or incurred to:

5 1. Remove any barriers that prevent a business from being  
6 accessible to or usable by individuals with disabilities.

7 2. Provide qualified interpreters or other methods of making audio  
8 materials available to hearing-impaired individuals.

9 3. Provide qualified readers, taped texts and other effective  
10 methods of making visually delivered materials available to individuals  
11 with visual impairments.

12 4. Acquire or modify equipment or devices for individuals with  
13 disabilities.

14 5. Provide other similar services, modifications, materials or  
15 equipment.

16 C. A taxpayer that has been cited for noncompliance with the  
17 Americans with disabilities act of 1990 or title 41, chapter 9, article 8  
18 by either federal or state enforcement officials is ineligible for a  
19 subtraction under this section for any expenditure required to cure the  
20 cited violation.

21 Sec. 46. Section 43-1127, Arizona Revised Statutes, is amended to  
22 read:

23 43-1127. Deferred exploration expenses

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

29 Sec. 47. Section 43-1130.01, Arizona Revised Statutes, is amended  
30 to read:

31 43-1130.01. Restoration of a substantial amount held under  
32 claim of right; computation of tax

33 A. This section applies if:

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

37 2. A deduction would be allowable under the internal revenue code  
38 or this title for the taxable year, without application of section  
39 1341(b)(3) of the internal revenue code or section 43-1121, paragraph ~~21~~  
40 20, because after the close of the prior taxable year or years it was  
41 established that the taxpayer did not have an unrestricted right to all or  
42 part of the item.

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

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

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

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

1. Required to be made by the government, political subdivision, agency or instrumentality referred to in that section.
2. Required to be made by an order of a court.
3. Made in settlement of litigation or under threat or imminence of litigation.

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

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

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

(b) ~~No~~ A carryover beyond the taxable year may NOT be taken into account.

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

(a) The loss shall be:

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

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

(b) ~~No~~ A carryover beyond the taxable year may NOT be taken into account.

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

Sec. 48. Section 43-1161, Arizona Revised Statutes, is amended to read:

43-1161. Credit for new employment

A. For taxable years beginning from and after June 30, 2011, a credit is allowed against the taxes imposed by this title for net increases in full-time employees residing in this state and hired in qualified employment positions in this state as computed and certified by the Arizona commerce authority pursuant to section 41-1525.

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

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

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

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

C. The capital investment and the new qualified employment positions requirements of section 41-1525, subsection B must be accomplished within twelve months after the start of the required capital investment. ~~No~~ A credit may NOT be claimed until both requirements are met. A business that meets the requirements of section 41-1525, subsection B for a location is eligible to claim first year credits for three years beginning with the taxable year in which those requirements are completed. Employees hired at the location before the beginning of the taxable year but during the twelve-month period allowed in this subsection are considered to be new employees for the taxable year in which all of those requirements are completed. The employees that are considered to be new employees for the taxable year under this subsection shall not be included in the average number of full-time employees during the immediately preceding taxable year until the taxable year in which all

of the requirements of section 41-1525, subsection B are completed. An employee working at a temporary ~~work site~~ WORKSITE in this state while the designated location is under construction is considered to be working at the designated location if all of the following occur:

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

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

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

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

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

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

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

~~G. A taxpayer that claims a credit under section 43-1164.01 or 43-1167 shall not claim a credit under this section with respect to the same employment positions.~~

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

~~I.~~ H. Co-owners of a business, including corporate partners in a partnership, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all such owners of the business may not exceed the amount that would have been allowed for a sole owner of the business.

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

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

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

~~L.~~ L. For the purposes of subsection B, paragraphs 2 and 3 of this section, if a full-time employee in the qualified employment position leaves during the taxable year, the employee may be replaced with another new full-time employee in the same employment position and the new employee will be treated as being in ~~their~~ THE EMPLOYEE'S second or third full year of continuous employment for the purposes of the credit under this section if:

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

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

Sec. 49. Section 43-1162, Arizona Revised Statutes, is amended to read:

43-1162. Credit for employment by a healthy forest enterprise

A. For taxable years beginning from and after December 31, 2004 through December 31, 2024, a credit is allowed against the taxes imposed by this title for net increases in qualified employment positions by a qualified business that is certified by the Arizona commerce authority as a healthy forest enterprise pursuant to section 41-1516.

B. Subject to subsection E of this section, the amount of the credit is equal to:

1. One-fourth of the taxable wages paid to an employee in a qualified employment position, not to exceed five hundred dollars per qualified employment position, in the first year or partial year of employment.

1           2. One-third of the taxable wages paid to an employee in a  
2 qualified employment position, not to exceed one thousand dollars per  
3 qualified employment position, in the second year of continuous  
4 employment.

5           3. One-half of the taxable wages paid to an employee in a qualified  
6 employment position, not to exceed one thousand five hundred dollars per  
7 qualified employment position, in the third year of continuous employment.

8           C. To qualify for a credit under this section:

9           1. The business must employ at least one new full-time employee in  
10 a qualified employment position in the first taxable year in which the  
11 credit is claimed.

12           2. Each employee with respect to whom a credit is claimed must  
13 reside in this state on the date of hire.

14           3. A qualified employment position must meet all of the following  
15 requirements:

16           (a) The position must be full-time employment for a minimum of one  
17 thousand five hundred fifty hours per year, unless a shorter period of  
18 employment is due to forest closures or weather conditions beyond the  
19 taxpayer's control.

20           (b) The job duties must primarily involve or directly support  
21 harvesting, transporting or processing qualifying forest products removed  
22 from qualifying projects as defined in section 41-1516 into a product  
23 having commercial value.

24           (c) The employer must pay compensation at least equal to the wage  
25 offer by county as computed annually by the department of economic  
26 security research administration division.

27           (d) The employee must have been employed for at least ninety days  
28 during the first taxable year. An employee who is hired during the last  
29 ninety days of the taxable year shall be considered a new employee during  
30 the next taxable year. A qualified employment position that is filled  
31 during the last ninety days of the taxable year is considered to be a new  
32 qualified employment position for the next taxable year.

33           (e) The employee has not been previously employed by the taxpayer  
34 within twelve months before the current date of hire.

35           4. The employer shall provide health insurance coverage for  
36 employees as follows:

37           (a) The employer shall pay:

38           (i) At least twenty-five ~~per cent~~ PERCENT of the premium or  
39 membership cost of the insurance program in the third year the taxpayer  
40 claims a credit under this section. If the taxpayer is self-insured, the  
41 taxpayer must pay at least twenty-five ~~per cent~~ PERCENT of a predetermined  
42 fixed cost per employee for an insurance program that is payable whether  
43 or not the employee has filed claims.



1 (ii) At least forty ~~per cent~~ PERCENT of the premium or membership  
2 cost in the fourth year the taxpayer claims a credit under this section.  
3 If the taxpayer is self-insured, the taxpayer must pay at least forty ~~per~~  
4 ~~cent~~ PERCENT of a predetermined fixed cost per employee for an insurance  
5 program that is payable whether or not the employee has filed claims.

6 (iii) At least fifty ~~per cent~~ PERCENT of the premium or membership  
7 cost of the insurance program in the fifth and each subsequent year the  
8 taxpayer claims a credit under this section. If the taxpayer is  
9 self-insured, the taxpayer must pay at least fifty ~~per cent~~ PERCENT of a  
10 predetermined fixed cost per employee for an insurance program that is  
11 payable whether or not the employee has filed claims.

12 (b) An employer shall not reduce the amount of health insurance  
13 coverage provided to employees before certification by the Arizona  
14 commerce authority.

15 D. A credit is allowed for employment in the second and third year  
16 only for qualified employment positions for which a credit was allowed and  
17 claimed by the taxpayer on the original first and second year tax returns.

18 E. The net increase in the number of qualified employment positions  
19 is the lesser of the total number of filled qualified employment positions  
20 created during the taxable year or the difference between the average  
21 number of full-time employees in the current taxable year and the average  
22 number of full-time employees during the immediately preceding taxable  
23 year. The net increase in the number of qualified employment positions  
24 computed under this subsection may not exceed two hundred qualified  
25 employment positions per taxpayer each year.

26 F. A taxpayer who claims a credit under section 43-1161 ~~or 43-1167~~  
27 may not claim a credit under this section with respect to the same  
28 employees.

29 G. If the allowable tax credit exceeds the income taxes otherwise  
30 due on the claimant's income, or if there are no state income taxes due on  
31 the claimant's income, the amount of the claim not used as an offset  
32 against income taxes may be carried forward as a tax credit against  
33 subsequent years' income tax liability for the period not to exceed five  
34 taxable years, provided the business maintains its certification under  
35 section 41-1516.

36 H. Co-owners of a business, including partners in a partnership,  
37 may each claim only the pro rata share of the credit allowed under this  
38 section based on the ownership interest. The total of the credits allowed  
39 all such owners of the business may not exceed the amount that would have  
40 been allowed for a sole owner of the business.

41 I. If a qualified business changes ownership through  
42 reorganization, stock purchase or merger, the new taxpayer may claim first  
43 year credits only for one or more qualified employment positions that it  
44 created and filled with an eligible employee after the purchase or  
45 reorganization was complete. If a person purchases a business that had

qualified for first or second year credits or changes ownership through reorganization, stock purchase or merger, the new taxpayer may claim the second or third year credits if it meets the other eligibility requirements of this section. Credits for which a taxpayer qualified before the changes described in this subsection are terminated and lost at the time the changes are implemented.

J. If, within five taxable years after first receiving a credit pursuant to this section, the certification of qualification of a business is terminated or revoked under section 41-1516 other than for reasons beyond the control of the business as determined by the Arizona commerce authority, the credits allowed the business pursuant to this section are subject to recapture pursuant to this subsection. This subsection applies only in the case of the termination or revocation of a certification of qualification. This subsection does not apply if, in any taxable year, a taxpayer otherwise does not qualify for or fails to claim the credit under this section. The recapture of credits under this subsection is computed by increasing the amount of taxes imposed in the year following the year in which the qualification of the business was terminated or revoked by an amount determined by multiplying the full amount of all credits previously allowed under this section by a percentage determined as follows:

1. If the initial credit under this section was allowed for the taxable year immediately preceding the taxable year in which the certification of qualification of a business is terminated or revoked, one hundred ~~per cent~~ PERCENT.

2. If the initial credit under this section was allowed two taxable years before the taxable year in which the certification of qualification of a business is terminated or revoked, eighty ~~per cent~~ PERCENT.

3. If the initial credit under this section was allowed three taxable years before the taxable year in which the certification of qualification of a business is terminated or revoked, sixty ~~per cent~~ PERCENT.

4. If the initial credit under this section was allowed four taxable years before the taxable year in which the certification of qualification of a business is terminated or revoked, forty ~~per cent~~ PERCENT.

5. If the initial credit under this section was allowed five taxable years before the taxable year in which the certification of qualification of a business is terminated or revoked, twenty ~~per cent~~ PERCENT.

Sec. 50. Section 43-1164.04, Arizona Revised Statutes, is amended to read:

43-1164.04. Credit for qualified facilities

A. For taxable years beginning from and after December 31, 2012 through December 31, 2022, a credit is allowed against the taxes imposed by this title for qualifying investment and employment in expanding or

1 locating a qualified facility in this state. To qualify for the credit,  
 2 after June 30, 2012 the taxpayer must invest in a new qualified facility  
 3 or expand an existing qualified facility in this state and produce new  
 4 full-time employment positions where the job duties are performed at the  
 5 location of the qualifying investment. The taxpayer must meet the  
 6 employee compensation and employee health benefit requirements prescribed  
 7 by section 41-1512.

8 B. The amount of the credit is computed as follows:

9 1. Ten percent of the lesser of:

10 (a) The total qualifying investment in the qualified facility.

11 (b) Two hundred thousand dollars for each net new full-time  
 12 employment position at the qualified facility.

13 2. The amount of the credit shall not exceed the postapproval  
 14 amount determined by the Arizona commerce authority under section 41-1512,  
 15 subsection P.

16 3. Subject to subsections G and J of this section:

17 (a) The credit amount computed under paragraph 1 of this subsection  
 18 is apportioned, and the taxpayer shall claim the credit in five equal  
 19 annual installments in each of five consecutive taxable years.

20 (b) The taxpayer may claim all five annual installments of a credit  
 21 that was preapproved before January 1, 2023 by the Arizona commerce  
 22 authority notwithstanding any intervening repeal or other termination of  
 23 the credit.

24 C. To claim the credit the taxpayer must:

25 1. Conduct a business that qualifies under section 41-1512.

26 2. Receive preapproval and postapproval from the Arizona commerce  
 27 authority pursuant to section 41-1512.

28 3. Submit to the department a copy of a current and valid  
 29 certification of qualification issued to the taxpayer by the Arizona  
 30 commerce authority.

31 D. To be counted for the purposes of the credit, an employee must  
 32 have been employed at the qualified facility for at least ninety days  
 33 during the taxable year in a permanent full-time employment position of at  
 34 least one thousand seven hundred fifty hours per year. An employee who is  
 35 hired during the last ninety days of the taxable year shall be considered  
 36 a new employee during the next taxable year. To be counted for the  
 37 purposes of the credit during the first taxable year of employment, the  
 38 employee must not have been previously employed by the taxpayer within  
 39 twelve months before the current date of hire. The terms of employment  
 40 must comply in all cases with the requirements of section 41-1512 and be  
 41 certified by the Arizona commerce authority.

42 E. Co-owners of a business, including corporate partners in a  
 43 partnership and members of a limited liability company, may each claim  
 44 only the pro rata share of the credit allowed under this section based on  
 45 the ownership interest. The total of the credits allowed all owners of

1 the business may not exceed the amount that would have been allowed for a  
2 sole owner of the business.

3 F. If the allowable tax credit for a taxable year exceeds the  
4 income taxes otherwise due on the claimant's income, or if there are no  
5 state income taxes due on the claimant's income, the amount of the claim  
6 not used as an offset against income taxes shall be paid to the taxpayer  
7 in the same manner as a refund under section 42-1118. Refunds made  
8 pursuant to this subsection are subject to setoff under section 42-1122.  
9 If the department determines that a refund is incorrect or invalid, the  
10 excess refund may be treated as a tax deficiency pursuant to section  
11 42-1108.

12 G. Except as provided by subsection H of this section, if, within  
13 five taxable years after first receiving a credit pursuant to this  
14 section, the certification of qualification of a business is terminated or  
15 revoked under section 41-1512, other than for reasons beyond the control  
16 of the business as determined by the Arizona commerce authority, the  
17 taxpayer is disqualified from credits under this section in subsequent  
18 taxable years. On a determination that the taxpayer has committed fraud or  
19 relocated outside of this state within five taxable years after first  
20 receiving a credit pursuant to this section, the credits allowed the  
21 taxpayer in all taxable years pursuant to this section are subject to  
22 recapture pursuant to this subsection. This subsection applies only in  
23 the case of the termination or revocation of a certification of  
24 qualification under section 41-1512. This subsection does not apply if,  
25 in any taxable year, a taxpayer otherwise does not qualify for or fails to  
26 claim the credit under this section. The recapture of credits is computed  
27 by increasing the amount of taxes imposed in the year following the year  
28 of termination or revocation by the full amount of all credits previously  
29 allowed under this section.

30 H. A taxpayer who claims a credit under section 43-1161, ~~43-1164.01~~  
31 ~~or 43-1167~~ may not claim a credit under this section with respect to the  
32 same full-time employment positions.

33 I. The department of revenue shall adopt rules and prescribe forms  
34 and procedures as necessary for the purposes of this section. The  
35 department of revenue and the Arizona commerce authority shall collaborate  
36 in adopting rules as necessary to avoid duplication and contradictory  
37 requirements while accomplishing the intent and purposes of this section.

38 J. Each taxable year after the postapproval of the credit under  
39 section 41-1512, subsection P, when the taxpayer files the taxpayer's  
40 income tax return, the taxpayer shall:

41 1. Notify the department, on a form prescribed by the department,  
42 of any full-time employment position for which a credit was claimed under  
43 this section and that was vacant for more than one hundred fifty days from  
44 the date the full-time employment position was originally filled to the  
45 end of that taxable year. The period that a full-time employment position

1 was vacant may not include the period before the full-time employment  
2 position was filled for the first time.

3 2. Reduce the portion of the credit claimed for the taxable year  
4 pursuant to subsection B, paragraph 3 of this section by four thousand  
5 dollars for each full-time employment position reported pursuant to  
6 paragraph 1 of this subsection.

7 Sec. 51. Section 43-1168, Arizona Revised Statutes, is amended to  
8 read:

9 43-1168. Credit for increased research activity

10 A. A credit is allowed against the taxes imposed by this title in  
11 an amount determined pursuant to section 41 of the internal revenue code,  
12 except that:

13 1. The amount of the credit is computed as follows:

14 (a) Add:

15 (i) The excess, if any, of the qualified research expenses for the  
16 taxable year over the base amount as defined in section 41(c) of the  
17 internal revenue code.

18 (ii) The basic research payments determined under section  
19 41(e)(1)(A) of the internal revenue code.

20 (b) If the sum computed under subdivision (a) of this paragraph is  
21 two million five hundred thousand dollars or less:

22 (i) For taxable years ~~through December 31, 2017, the credit is~~  
23 ~~equal to twenty percent of that amount.~~

24 ~~(ii) For taxable years beginning from and after December 31, 2017~~  
25 ~~through~~ BEGINNING BEFORE December 31, 2021, the credit is equal to  
26 twenty-four percent of that amount.

27 ~~(iii) (ii)~~ (ii) For taxable years beginning from and after December 31,  
28 2021, the credit is equal to twenty percent of that amount.

29 (c) If the sum computed under subdivision (a) of this paragraph is  
30 over two million five hundred thousand dollars:

31 (i) For taxable years ~~through December 31, 2017, the credit is~~  
32 ~~equal to five hundred thousand dollars plus eleven percent of any amount~~  
33 ~~exceeding two million five hundred thousand dollars.~~

34 ~~(ii) For taxable years beginning from and after December 31, 2017,~~  
35 ~~through~~ BEGINNING BEFORE December 31, 2021, the credit is equal to six  
36 hundred thousand dollars plus fifteen percent of any amount exceeding two  
37 million five hundred thousand dollars.

38 ~~(iii) (ii)~~ (ii) For taxable years beginning from and after December 31,  
39 2021, the credit is equal to five hundred thousand dollars plus eleven  
40 percent of any amount exceeding two million five hundred thousand dollars.

41 (d) For taxable years beginning from and after December 31, 2011,  
42 an additional credit amount is allowed if the taxpayer made basic research  
43 payments during the taxable year to a university under the jurisdiction of  
44 the Arizona board of regents. The additional credit amount is equal to  
45 ten percent of the excess, if any, of the basic research payments over the

1 qualified organization base period amount for the taxable year. The  
2 department shall not allow credit amounts under this subdivision and  
3 section 43-1074.01, subsection A, paragraph 1, subdivision (c) that  
4 exceed, in the aggregate, a combined total of ten million dollars in any  
5 calendar year. Subject to that limit, on application by the taxpayer, the  
6 department shall certify credit amounts under this subdivision and section  
7 43-1074.01, subsection A, paragraph 1, subdivision (c) based on priority  
8 placement established by the date that the taxpayer filed the application.  
9 For taxable years beginning from and after December 31, 2014, any basic  
10 research payments used to determine the additional credit under this  
11 subdivision must first receive certification from the Arizona commerce  
12 authority pursuant to section 41-1507.01. The additional credit amount  
13 under this subdivision shall not exceed the amount allowed based on actual  
14 basic research payments or the department's certification, whichever is  
15 less. If an application, if certified in full, would exceed the ten  
16 million dollar limit, the department shall certify only an amount within  
17 that limit. After the limit is attained, the department shall deny any  
18 subsequent applications regardless of whether other certified amounts are  
19 not actually claimed as a credit or other taxpayers fail to qualify to  
20 actually claim certified amounts. Notwithstanding subsections B and D of  
21 this section, any amount of the additional credit under this subdivision  
22 that exceeds the taxes otherwise due under this title is not refundable,  
23 but may be carried forward to the next five consecutive taxable years.  
24 For the purposes of this subdivision, "basic research payments" and  
25 "qualified organization base period amount" have the same meanings  
26 prescribed by section 41(e) of the internal revenue code.

27 2. Qualified research includes only research conducted in this  
28 state, including research conducted at a university in this state and paid  
29 for by the taxpayer.

30 3. If two or more taxpayers, including corporate partners in a  
31 partnership, share in the eligible expenses, each taxpayer is eligible to  
32 receive a proportionate share of the credit.

33 4. The credit under this section applies only to expenses incurred  
34 from and after December 31, 1993.

35 5. The termination provisions of section 41 of the internal revenue  
36 code do not apply.

37 B. Except as provided by subsection D of this section, if the  
38 allowable credit under this section exceeds the taxes otherwise due under  
39 this title on the claimant's income, or if there are no taxes due under  
40 this title, the amount of the credit not used to offset taxes may be  
41 carried forward to the next fifteen consecutive taxable years. The amount  
42 of credit carryforward from taxable years beginning from and after  
43 December 31, 2000 through December 31, 2002 that may be used under this  
44 subsection in any taxable year may not exceed the taxpayer's tax liability  
45 under this title or five hundred thousand dollars, whichever is less,

1 minus the credit under this section for the current taxable year's  
2 qualified research expenses. The amount of credit carryforward from  
3 taxable years beginning from and after December 31, 2002 that may be used  
4 under this subsection in any taxable year may not exceed the taxpayer's  
5 tax liability under this title minus the credit under this section for the  
6 current taxable year's qualified research expenses. A taxpayer that  
7 carries forward any amount of credit under this subsection may not  
8 thereafter claim a refund of any amount of the credit under subsection D  
9 of this section.

10 C. If a taxpayer has qualified research expenses that are carried  
11 forward from taxable years beginning before January 1, 2001, the amount of  
12 the expenses carried forward shall be converted to a credit carryforward  
13 by multiplying the amount of the qualified expenses carried forward by  
14 twenty percent. A credit carryforward determined under this subsection  
15 may be carried forward to not more than fifteen years from the year in  
16 which the expenses were incurred. The amount of credit carryforward from  
17 taxable years beginning before January 1, 2001 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 total amount of credit carryforward from  
22 taxable years beginning before January 1, 2003 that may be used in any  
23 taxable year under subsection B and this subsection may not exceed the  
24 taxpayer's tax liability under this title or five hundred thousand  
25 dollars, whichever is less, minus the credit under this section for the  
26 current taxable year's qualified research expenses.

27 D. For taxable years beginning from and after December 31, 2009, if  
28 a taxpayer that claims a credit under this section employs fewer than one  
29 hundred fifty persons in the taxpayer's trade or business and if the  
30 allowable credit under this section exceeds the taxes otherwise due under  
31 this title on the claimant's income, or if there are no taxes due under  
32 this title, in lieu of carrying the excess amount of credit forward to  
33 subsequent taxable years under subsection B of this section, the taxpayer  
34 may elect to receive a refund as follows:

35 1. The taxpayer must apply to the Arizona commerce authority for  
36 qualification for the refund pursuant to section 41-1507 and submit a copy  
37 of the authority's certificate of qualification to the department of  
38 revenue with the taxpayer's income tax return.

39 2. The amount of the refund is limited to seventy-five percent of  
40 the amount by which the allowable credit under this section exceeds the  
41 taxpayer's tax liability under this title for the taxable year. The  
42 remainder of the excess amount of the credit is waived.

43 3. The refund shall be paid in the manner prescribed by section  
44 42-1118.

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

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

5           ~~E. A taxpayer that claims a credit for increased research and~~  
6 ~~development activity under this section shall not claim a credit under~~  
7 ~~section 43-1164.02 for the same expenses.~~

8           Sec. 52. Section 43-1603, Arizona Revised Statutes, is amended to  
9 read:

10           43-1603. Operational requirements for school tuition  
11           organizations; notice; qualified schools

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

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

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

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

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

27           4. Shall not allow donors to designate student beneficiaries as a  
28 condition of any contribution to the organization, or facilitate,  
29 encourage or knowingly permit the exchange of beneficiary student  
30 designations in violation of section 43-1089, subsection F, SECTION  
31 43-1089.03, SUBSECTION F AND 43-1089.04, SUBSECTION E.

32           5. Shall include on the organization's website, if one exists, the  
33 percentage and total dollar amount of educational scholarships and tuition  
34 grants awarded during the previous fiscal year to:

35           (a) Students whose family income meets the economic eligibility  
36 requirements established under the national school lunch and child  
37 nutrition acts (42 United States Code sections 1751 through 1785) for free  
38 or reduced-price lunches.

39           (b) Students whose family income exceeds the threshold prescribed  
40 by subdivision (a) of this paragraph but does not exceed one hundred  
41 eighty-five percent of the economic eligibility requirements established  
42 under the national school lunch and child nutrition acts (42 United States  
43 Code sections 1751 through 1785) for free or reduced-price lunches.



6. Must not award educational scholarships or tuition grants to students who are simultaneously enrolled in a district school or charter school and a qualified school.

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

Notice

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

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

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

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

2. Shall consider the financial need of applicants.

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

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

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

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

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

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

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

8           Sec. 53. Conditional enactment

9           Section 42-2003, Arizona Revised Statutes, as amended by Laws 2017,  
10 chapter 96, section 1, chapter 139, section 4, chapter 258, section 43 and  
11 chapter 340, section 2 and this act, is effective only if Laws 2017,  
12 chapter 139, the subject of referendum petition R-02-2018, is approved by  
13 a vote of the people at the next general election or fails to be referred  
14 to the voters at the next general election.