State of Arizona
Senate
Fifty-fifth Legislature
Second Regular Session
2022

CHAPTER 235
SENATE BILL 1579

AN ACT
AMENDING SECTIONS 41-1516, 42-2003, 42-5075, 42-12006, 42-12057, 42-14151, 43-222, 43-405, 43-1014, 43-1021 AND 43-1022, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 3, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1026; AMENDING SECTION 43-1073, ARIZONA REVISED STATUTES; REPEALING SECTIONS 43-1076 AND 43-1081, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1081.01, 43-1121 AND 43-1130.01, ARIZONA REVISED STATUTES; REPEALING SECTION 43-1169, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1170 AND 43-1311, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 13, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1382; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)
Be it enacted by the Legislature of the State of Arizona:

Section 1. Section 41-1516, Arizona Revised Statutes, is amended to read:

41-1516. Healthy forest enterprise incentives; definitions

A. The Arizona commerce authority shall:

1. Implement a program to encourage counties, cities and towns to provide local incentives to economic enterprises that promote forest health in this state.

2. Identify and certify to the department of revenue the names of and relevant information relating to qualified businesses for the purposes of available state tax incentives for economic enterprises that promote forest health in this state.

B. To qualify for state tax incentives pursuant to this section, a business:

1. Must be primarily engaged in a qualifying project. The business shall submit to the authority evidence that it is engaged in a qualifying project as follows:

   (a) The business operation must enhance or sustain forest health, sustain or recover watershed or improve public safety.

   (b) If the qualifying forest product is on federal land, the business shall submit a letter from the federal agency administering the land, or official records or documents produced in connection with the project, stating that the business is primarily engaged in the business of harvesting or processing qualifying forest products for commercial use as follows:

      (i) At least seventy percent of the harvested or processed products, measured by weight, must be qualifying forest products.

      (ii) At least seventy-five percent of the qualifying forest products, measured by weight, must be harvested from sources in this state.

   (c) If the qualifying forest product is not on federal land, the business shall submit a letter from the state forester stating that the business is primarily engaged in the business of harvesting or processing qualifying forest products for commercial use as follows:

      (i) At least seventy percent of the harvested or processed products must be qualifying forest products.

      (ii) At least seventy-five percent of the harvested or processed products must be from areas in this state.

   (d) If the business is engaged in transporting qualifying forest products, it must submit a letter from the state forester or United States forest service, or official records or documents produced in connection with the project, stating that all of the qualifying forest products it transports are harvested from areas in this state. In addition, the business must submit evidence to the authority that at least seventy-five percent of the mileage traveled by its units each year are for
transporting qualifying forest products from or to qualifying projects
described in subdivision (b) or (c) of this paragraph, unless a lower
mileage is due to forest closures or weather conditions that are beyond
the control of the business.

2. Must employ at least one permanent full-time employee.

3. Must agree to furnish to the authority information relating to
the amount of state tax benefits that the business receives each year.

4. Must enter into a memorandum of understanding with the authority
containing:
   (a) Employment goals. Each year the business must report in
writing to the authority its performance in achieving the goals.
   (b) A commitment to continue in business and use the qualifying
equipment primarily on qualifying projects in this state as described in
paragraph 1 of this subsection, other than for reasons beyond the control
of the business. The authority shall consult with the department of
revenue in designing the memorandum of understanding to incorporate the
legal qualifications for the available tax incentives and shall include
the requirement that any qualifying equipment that is purchased or leased
free of transaction privilege or use tax must continue to be used in this
state for the term of the memorandum of understanding or the duration of
its operational life, whichever is shorter.
   (c) Provisions considered necessary by the authority to ensure the
competency and responsibility of businesses that qualify under this
section, including registration or other accreditation with trade and
professional organizations and compliance with best management and
operational practices used by governmental agencies in awarding forestry
contracts.
   (d) The authorization for the authority to terminate, adjust or
recapture all or part of the tax benefits provided to the business on
noncompliance with the law, noncompliance with the terms of the memorandum
or violation of the terms of any contracts with the federal or state
government relating to the qualifying project. The authority shall notify
the department of revenue of the conditions of noncompliance. The
department of revenue may also terminate the certification if it obtains
information indicating a failure to qualify and comply. The department of
revenue may require the business to file appropriate amended tax returns
or to file appropriate use tax returns reflecting the recapture of the
direct or indirect tax benefits.

5. Must submit a copy of the certification to the department of
revenue for approval before using the certification for purposes of any
tax incentive. The department of revenue shall review and approve the
certification in a timely manner if the business is in good standing with
the department and is not delinquent in the payment of any tax collected
by the department. A failure to approve or deny the certification within
sixty days after the date the business submits it to the department constitutes approval of the certification.

C. For the purposes of section 42-5075, subsection B, paragraph 18, the authority shall certify prime contractors that contract for the construction of any building, or other structure, project, development or improvement owned by a qualified business for purposes of a qualifying project described in subsection B, paragraph 1 of this section.

D. To obtain and maintain certification under this section, a business must:

1. Apply to the authority.
2. Submit and retain copies of all required information, including information relating to the actual or projected number of employees in this state.
3. Allow inspections and audits to verify the qualification and accuracy of information submitted to the authority.

E. Certification under this section is valid for sixty calendar months from the date of issuance. A business must apply for recertification at least thirty days before the current certification expires. The application for recertification shall be in a form prescribed by the authority and shall confirm that the business is continuing in a qualifying project and is in compliance with all requirements prescribed for certification.

F. Within sixty days after receiving a complete and correct application and all required information as prescribed by this section, the authority shall grant or deny certification and give written notice by certified mail to the applicant. The applicant is certified as a qualified business on the date the notice of certification is delivered to the applicant. A failure to respond within sixty days after receiving a complete and correct application constitutes approval of the application.

G. The certification shall state an effective date with respect to each authorized tax incentive, which, in each case, must be at the start of a taxable year or taxable period.

H. On or before March 1 of each year, each qualifying business shall make a report to the authority on all business activity in the preceding calendar year. Business information contained in the reports is confidential and shall not be disclosed to the public except as provided by this section and except that a copy of the report shall be transmitted to the department of revenue. The report shall be in a form prescribed by the authority and include:

1. Information prescribed by the authority with respect to both qualifying projects and other projects and business activity that do not qualify for purposes of this section.
2. Employment information necessary to confirm eligibility for income tax credit as prescribed by section 43-1076.
3. 2. The quantity, measured by weight, of qualifying forest products harvested, transported or processed.

I. On or before May 1 of each year, the authority shall report to the joint legislative budget committee:

1. the quantity, measured by weight, of qualifying forest products reported by harvesters, by transporters and by processors in the preceding calendar year.

2. The number of new full-time employees hired in qualified employment positions in this state in the preceding calendar year and reported for tax credit purposes.

3. The total number of all full-time employees employed in qualified employment positions in this state in the preceding calendar year and reported for tax credit purposes.

J. For the purposes of administering and ensuring compliance with this section, agents of the authority may enter, and a qualified business shall allow access to, a qualifying project site at reasonable times and on reasonable notice to:

1. Inspect the facilities at the site.
2. Obtain factual data and records pertinent to and required by law to be kept for purposes of tax incentives.
3. Otherwise ascertain compliance with law and the terms of the memorandum of understanding.

K. The authority shall revoke the business' certification and notify the department of revenue and county assessor if either:

1. Within thirty days after a formal request from the authority or the department of revenue, the business fails or refuses to provide the information or access for inspections required by this section.
2. The business no longer meets the terms and conditions required for qualification for the applicable tax incentives.

L. For the purposes of this section:

1. "Forest health" means the degree to which the integrity of the forest is sustained, including reducing the risk of catastrophic wildfire and destructive insect infestation, benefiting wildland habitats, watersheds and communities.

2. "Harvesting" means all operations relating to felling or otherwise removing trees and other forest plant growth and preparing them for transport for subsequent processing.

3. "Processing" means:

(a) Any change in the physical structure of qualifying forest products removed from a qualifying project into a marketable commercial product or component of a product that has commercial value to a consumer or purchaser and that is ready to be used with or without further altering its form.
(b) Burning qualifying forest products in the process of commercial electrical generation or commercial thermal energy production for heating or cooling, regardless of the physical structure of the forest product before burning.

4. "Qualifying equipment" means equipment used directly in harvesting or processing qualifying forest products removed from a qualifying project. Qualifying equipment does not include self-propelled vehicles required to be licensed by this state, but may include other licensed vehicles as provided by this paragraph. Qualifying equipment includes:

(a) Forest thinning and residue removal equipment, including mulching and masticating equipment, feller-bunchers, skidders, log loaders, portable chippers and grinders, slash bundlers, delimiters, log trailers, chip trailers and other trailers that are uniquely designed for handling forest products and that are licensed for operation on public highways.

(b) Forest residue receiving and handling equipment, including truck dumpers, log unloaders, scales, log decking facilities and equipment and chip pile facilities.

(c) Sorting and processing equipment, including portable and stationary log loaders, front-end loaders, forklifts and cranes, chippers and grinders, screens, decks and debarkers, saws and sawmill equipment, firewood processing, wood residue baling and bagging equipment, kilns, planing and molding equipment and laminating and joining equipment.

(d) Forest waste and residue disposal and processing equipment, including:

(i) Processing and sizing equipment, hogs, chippers, screens, pelletizers and wood splitters.

(ii) Transporting and handling equipment, including loaders, conveyors, blowers, receiving hoppers, truck dumpers and dozers.

(iii) Waste use equipment, including fuel feed, storage bins, boilers and combustors.

(iv) Waste project use equipment, including generators, switchgear and substations and on-site distribution systems.

(v) Generated waste disposal equipment, including ash silos and wastewater treatment and disposal equipment.

(vi) Shop and maintenance equipment and major spares having a value of more than $5,000 each.

5. "Qualifying forest products" means dead standing and fallen timber, and forest thinnings associated with the harvest of small diameter timber, slash, wood chips, peelings, brush and other woody vegetation, removed from federal, state and other public forest land and from private forest land.
6. "Qualifying project" means harvesting, transporting or processing qualifying forest products as required for certification pursuant to this section.

Sec. 2. Section 42-2003, Arizona Revised Statutes, is amended to read:

42-2003. Authorized disclosure of confidential information

A. Confidential information relating to:

1. A taxpayer may be disclosed to the taxpayer, its successor in interest or a designee of the taxpayer who is authorized in writing by the taxpayer. A principal corporate officer of a parent corporation may execute a written authorization for a controlled subsidiary. IF A TAXPAYER ELECTS TO FILE AN ARIZONA SMALL BUSINESS INCOME TAX RETURN UNDER SECTION 43-302, A WRITTEN AUTHORIZATION BY A TAXPAYER TO ALLOW THE DEPARTMENT TO DISCLOSE PERSONAL INCOME TAX INFORMATION TO A DESIGNEE INCLUDES THE CORRESPONDING ARIZONA SMALL BUSINESS INCOME TAX RETURN.

2. A corporate taxpayer may be disclosed to any principal officer, any person designated by a principal officer or any person designated in a resolution by the corporate board of directors or other similar governing body. If a corporate officer signs a statement under penalty of perjury representing that the officer is a principal officer, the department may rely on the statement until the statement is shown to be false. For the purposes of this paragraph, "principal officer" includes a chief executive officer, president, secretary, treasurer, vice president of tax, chief financial officer, chief operating officer or chief tax officer or any other corporate officer who has the authority to bind the taxpayer on matters related to state taxes.

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

4. A limited liability company may be disclosed to any member of the company or, if the company is manager-managed, to any manager.

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

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

7. A government entity may be disclosed to the head of the entity or a member of the governing board of the entity, or any employee of the entity who has been delegated the authorization in writing by the head of the entity or the governing board of the entity.
8. Any taxpayer may be disclosed if the taxpayer has waived any rights to confidentiality either in writing or on the record in any administrative or judicial proceeding.

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

10. Any taxpayer may be disclosed during a meeting or telephone call if the taxpayer is present during the meeting or telephone call and authorizes the disclosure of confidential information.

B. Confidential information may be disclosed to:

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

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

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

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

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

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

   (b) A state tax official of another state.

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

   (d) An agency, official or organization of a foreign country with responsibilities that are comparable to those listed in subdivision (a), (b) or (c) of this paragraph.
(e) An agency, official or organization of an Indian tribal
government with responsibilities comparable to the responsibilities of the
agencies, officials or organizations identified in subdivision (a), (b) or
(c) of this paragraph.
6. The auditor general, in connection with any audit of the
department subject to the restrictions in section 42-2002, subsection D.
7. Any person to the extent necessary for effective tax
administration in connection with:
(a) The processing, storage, transmission, destruction and
reproduction of the information.
(b) The programming, maintenance, repair, testing and procurement
of equipment for purposes of tax administration.
(c) The collection of the taxpayer's civil liability.
8. The office of administrative hearings relating to taxes
administered by the department pursuant to section 42-1101, but the
department shall not disclose any confidential information without the
taxpayer's written consent:
(a) Regarding income tax or withholding tax.
(b) On any tax issue relating to information associated with the
reporting of income tax or withholding tax.
9. The United States treasury inspector general for tax
administration for the purpose of reporting a violation of internal
revenue code section 7213A (26 United States Code section 7213A),
unauthorized inspection of returns or return information.
10. The financial management service of the United States treasury
department for use in the treasury offset program.
11. The United States treasury department or its authorized agent
for use in the state income tax levy program and in the electronic federal
tax payment system.
12. The Arizona commerce authority for its use in:
(a) Qualifying renewable energy operations for the tax incentives
under section 42-12006.
(b) Qualifying businesses with a qualified facility for income tax
credits under sections 43-1083.03 and 43-1164.04.
(c) Fulfilling its annual reporting responsibility pursuant to
sections 41-1511, subsections U and V and section 41-1512, subsections U
and V.
(d) Certifying computer data centers for tax relief under section
41-1519.
13. A prosecutor for purposes of section 32-1164, subsection C.
14. The office of the state fire marshal for use in determining
compliance with and enforcing title 37, chapter 9, article 5.
15. The department of transportation for its use in administering
taxes, surcharges and penalties prescribed by title 28.
16. The Arizona health care cost containment system administration for its use in administering nursing facility provider assessments.

17. The department of administration risk management division and the office of the attorney general if the information relates to a claim against this state pursuant to section 12-821.01 involving the department of revenue.

18. Another state agency if the taxpayer authorizes the disclosure of confidential information in writing, including an authorization that is part of an application form or other document submitted to the agency.

19. The department of economic security for its use in determining whether an employer has paid all amounts due under the unemployment insurance program pursuant to title 23, chapter 4.

20. The department of health services for its use in determining the following:
   (a) Whether a medical marijuana dispensary is in compliance with the tax requirements of chapter 5 of this title for the purposes of section 36-2806, subsection A.
   (b) Whether a marijuana establishment, marijuana testing facility or dual licensee licensed under title 36, chapter 28.2 is in compliance with the tax obligations under this title or title 43.


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

1. May be used only for internal purposes, including audits. If there is a legitimate business need relating to enforcing laws, regulations and ordinances pursuant to section 9-500.39 or 11-269.17, a county, city or town tax official may redisclose transaction privilege tax information relating to a vacation rental or short-term rental property owner or online lodging operator from the new license report and license update report, subject to the following:

(a) The information redisclosed is limited to the following:
   (i) The transaction privilege tax license number.
   (ii) The type of organization or ownership of the business.
   (iii) The legal business name and doing business as name, if different from the legal name.
   (iv) The business mailing address, tax record physical location address, telephone number, email address and fax number.
   (v) The date the business started in this state, the business description and the North American industry classification system code.
   (vi) The name, address and telephone number for each owner, partner, corporate officer, member, managing member or official of the employing unit.

(b) Redisclosure is limited to nonelected officials in other units within the county, city or town. The information may not be redisclosed to an elected official or the elected official's staff.
(c) All redisclosures of confidential information made pursuant to this paragraph are subject to paragraph 2 of this subsection.

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

H. 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.

I. 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.

J. 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.

K. 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.

L. 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.

M. 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.

N. 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.
O. 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.

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

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

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

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

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

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

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

T. For proceedings before the department, the office of administrative hearings, the state board of tax appeals or any state or federal court involving penalties that were assessed against a return preparer, an electronic return preparer or a payroll service company pursuant to section 42-1103.02, 42-1125.01 or 43-419, confidential information may be disclosed only before the judge or administrative law judge adjudicating the proceeding, the parties to the proceeding and the parties' representatives in the proceeding prior to its introduction into evidence in the proceeding. The confidential information may be introduced as evidence in the proceeding only if the taxpayer's name, the names of any dependents listed on the return, all social security numbers, the taxpayer's address, the taxpayer's signature and any attachments containing any of the foregoing information are redacted and if either:

1. The treatment of an item reflected on such a return is or may be related to the resolution of an issue in the proceeding.
2. Such a return or the return information relates or may relate to a transactional relationship between a person who is a party to the proceeding and the taxpayer that directly affects the resolution of an issue in the proceeding.

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

U. The department and attorney general may share the information specified in subsection S of this section with any of the following:

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

V. 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 that is classified and reporting transaction privilege tax under the utilities classification.

W. 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 that are subject to distribution and that are required by section 42-5032.02. Information disclosed by the department under this subsection:

1. May only be used ONLY 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.

X. 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, 8 and 10, subsection B,
paragraphs 1, 2, 7 and 8 and subsections C, D and G 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.
Sec. 3. Section 42-5075, Arizona Revised Statutes, is amended to
read:

42-5075. Prime contracting classification; exemptions;
definitions

A. The prime contracting classification is comprised of the
business of prime contracting and the business of manufactured building
dealer. Sales for resale to another manufactured building dealer are not
subject to tax. Sales for resale do not include sales to a lessor of
manufactured buildings. The sale of a used manufactured building is not
taxable under this chapter. The prime contracting classification does not
include any work or operation performed by a person that is not required
to be licensed by the registrar of contractors pursuant to section
32-1121.

B. The tax base for the prime contracting classification is
sixty-five percent of the gross proceeds of sales or gross income derived
from the business. The following amounts shall be deducted from the gross
proceeds of sales or gross income before computing the tax base:
  1. The sales price of land, which shall not exceed the fair market
value.
  2. Sales and installation of groundwater measuring devices required
under section 45-604 and groundwater monitoring wells required by law,
including monitoring wells installed for acquiring information for a
permit required by law.
  3. The sales price of furniture, furnishings, fixtures, appliances
and attachments that are not incorporated as component parts of or
attached to a manufactured building or the setup site. The sale of such
items may be subject to the taxes imposed by article 1 of this chapter
separately and distinctly from the sale of the manufactured building.
  4. The gross proceeds of sales or gross income received from a
contract entered into for the modification of any building, highway, road,
railroad, excavation, manufactured building or other structure, project,
development or improvement located in a military reuse zone for providing
aviation or aerospace services or for a manufacturer, assembler or
fabricator of aviation or aerospace products within an active military
reuse zone after the zone is initially established or renewed under
section 41-1531. To be eligible to qualify for this deduction, before
beginning work under the contract, the prime contractor must have applied
for a letter of qualification from the department of revenue.

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

6. The gross proceeds of sales or gross income from a contract to provide for one or more of the following actions, or a contract for site preparation, constructing, furnishing or installing machinery, equipment or other tangible personal property, including structures necessary to protect exempt incorporated materials or installed machinery or equipment, and tangible personal property incorporated into the project, to perform one or more of the following actions in response to a release or suspected release of a hazardous substance, pollutant or contaminant from a facility to the environment, unless the release was authorized by a permit issued by a governmental authority:
   (a) Actions to monitor, assess and evaluate such a release or a suspected release.
   (b) Excavation, removal and transportation of contaminated soil and its treatment or disposal.
   (c) Treatment of contaminated soil by vapor extraction, chemical or physical stabilization, soil washing or biological treatment to reduce the concentration, toxicity or mobility of a contaminant.
   (d) Pumping and treatment or in situ treatment of contaminated groundwater or surface water to reduce the concentration or toxicity of a contaminant.
   (e) The installation of structures, such as cutoff walls or caps, to contain contaminants present in groundwater or soil and prevent them from reaching a location where they could threaten human health or welfare or the environment.

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

7. The gross proceeds of sales or gross income that is derived from a contract for the installation, assembly, repair or maintenance of machinery, equipment or other tangible personal property that is either deducted from the tax base of the retail classification under section 42-5061, subsection B or that is exempt from use tax under section 42-5159, subsection B and that has independent functional utility, pursuant to the following provisions:
(a) The deduction provided in this paragraph includes the gross proceeds of sales or gross income derived from all of the following:
   (i) Any activity performed on machinery, equipment or other tangible personal property with independent functional utility.
   (ii) Any activity performed on any tangible personal property relating to machinery, equipment or other tangible personal property with independent functional utility in furtherance of any of the purposes provided for under subdivision (d) of this paragraph.
   (iii) Any activity that is related to the activities described in 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, maintenance or removal of machinery, equipment or other tangible personal property that is either deducted from the tax base of the retail classification under section 42-5061, subsection B or exempt from use tax under section 42-5159, subsection B.

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

(d) For the purposes of this paragraph, "independent functional utility" means that the machinery, equipment or other tangible personal property can independently perform its function without attachment to real property, other than attachment for any of the following purposes:
   (i) Assembling the machinery, equipment or other tangible personal property.
   (ii) Connecting items of machinery, equipment or other tangible personal property to each other.
   (iii) Connecting the machinery, equipment or other tangible personal property, whether as an individual item or as a system of items, to water, power, gas, communication or other services.
   (iv) Stabilizing or protecting the machinery, equipment or other tangible personal property during operation by bolting, burying or performing other similar nonpermanent connections to either real property or real property improvements.

8. The gross proceeds of sales or gross income attributable to the purchase of machinery, equipment or other tangible personal property that is exempt from or deductible from transaction privilege and use tax under:
   (a) Section 42-5061, subsection A, paragraph 25, 29 or 58.
   (b) Section 42-5061, subsection B.
   (c) Section 42-5159, subsection A, paragraph 13, subdivision (a), (b), (c), (d), (e), (f), (j), (k), (m) or (n) or paragraph 55.
(d) Section 42-5159, subsection B.
9. The gross proceeds of sales or gross income received from a contract for the construction of an environmentally controlled facility for the raising of poultry for the production of eggs and the sorting, cooling and packaging of eggs.
10. The gross proceeds of sales or gross income that is derived from a contract entered into with a person who is engaged in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products in this state for the modification of any building, highway, road, excavation, manufactured building or other structure, project, development or improvement used directly and primarily to prevent, monitor, control or reduce air, water or land pollution.
11. The gross proceeds of sales or gross income that is derived from the installation, assembly, repair or maintenance of clean rooms that are deducted from the tax base of the retail classification pursuant to section 42-5061, subsection B, paragraph 17.
12. For taxable periods beginning from and after June 30, 2001, the gross proceeds of sales or gross income derived from a contract entered into for the construction of a residential apartment housing facility that qualifies for a federal housing subsidy for low income persons over sixty-two years of age and that is owned by a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code.
13. For taxable periods beginning from and after December 31, 1996 and ending before January 1, 2017, the gross proceeds of sales or gross income derived from a contract to provide and install a solar energy device. The contractor shall register with the department as a solar energy contractor. By registering, the contractor acknowledges that it will make its books and records relating to sales of solar energy devices available to the department for examination.
14. The gross proceeds of sales or gross income derived from a contract entered into for the construction of a launch site, as defined in 14 Code of Federal Regulations section 401.5.
15. The gross proceeds of sales or gross income derived from a contract entered into for the construction of a domestic violence shelter that is owned and operated by a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code.
16. The gross proceeds of sales or gross income derived from contracts to perform postconstruction treatment of real property for termite and general pest control, including wood-destroying organisms.
17. The gross proceeds of sales or gross income received from contracts entered into before July 1, 2006 for constructing a state university research infrastructure project if the project has been reviewed by the joint committee on capital review before the university
enters into the construction contract for the project. For the purposes of this paragraph, "research infrastructure" has the same meaning prescribed in section 15-1670.

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

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

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

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

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

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

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

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

(d) "Renewable energy" has the same meaning prescribed in section 41-1511 MEANS USABLE ENERGY, INCLUDING ELECTRICITY, FUELS, GAS AND HEAT, PRODUCED THROUGH THE CONVERSION OF ENERGY PROVIDED BY SUNLIGHT, WATER, WIND, GEOTHERMAL, HEAT, BIOMASS, BIOGAS, LANDFILL GAS OR OTHER NONFOSSIL RENEWABLE RESOURCE.

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

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

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

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

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

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

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

D. Subcontractors or others who perform modification activities are not subject to tax if they can demonstrate that the job was within the control of a prime contractor or contractors or a dealership of manufactured buildings and that the prime contractor or dealership is liable for the tax on the gross income, gross proceeds of sales or gross receipts attributable to the job and from which the subcontractors or others were paid.

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

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

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

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

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

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

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

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

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

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

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

3. For sales in this state where the manufactured building dealer contracts to deliver the building to a setup site that is outside this state, the situs is outside this state and the transaction is excluded from tax.
N. The gross proceeds of sales or gross income attributable to a written contract for design phase services or professional services, executed before modification begins and with terms, conditions and pricing of all of these services separately stated in the contract from those for construction phase services, is not subject to tax under this section, regardless of whether the services are provided sequential to or concurrent with prime contracting activities that are subject to tax under this section. This subsection does not include the gross proceeds of sales or gross income attributable to construction phase services. For the purposes of this subsection:

1. "Construction phase services" means services for the execution and completion of any modification, including the following:
   (a) Administration or supervision of any modification performed on the project, including team management and coordination, scheduling, cost controls, submittal process management, field management, safety program, close-out process and warranty period services.
   (b) Administration or supervision of any modification performed pursuant to a punch list. For the purposes of this subdivision, "punch list" means minor items of modification work performed after substantial completion and before final completion of the project.
   (c) Administration or supervision of any modification performed pursuant to change orders. For the purposes of this subdivision, "change order" means a written instrument issued after execution of a contract for modification work, providing for all of the following:
      (i) The scope of a change in the modification work, contract for modification work or other contract documents.
      (ii) The amount of an adjustment, if any, to the guaranteed maximum price as set in the contract for modification work. For the purposes of this item, "guaranteed maximum price" means the amount guaranteed to be the maximum amount due to a prime contractor for the performance of all modification work for the project.
      (iii) The extent of an adjustment, if any, to the contract time of performance set forth in the contract.
   (d) Administration or supervision of any modification performed pursuant to change directives. For the purposes of this subdivision, "change directive" means a written order directing a change in modification work before agreement on an adjustment of the guaranteed maximum price or contract time.
   (e) Inspection to determine the dates of substantial completion or final completion.
   (f) Preparation of any manuals, warranties, as-built drawings, spares or other items the prime contractor must furnish pursuant to the contract for modification work. For the purposes of this subdivision, "as-built drawing" means a drawing that indicates field changes made to
adapt to field conditions, field changes resulting from change orders or buried and concealed installation of piping, conduit and utility services.

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

(i) Master schedule updates.
(ii) Modification work cash flow projection updates.
(iii) Site reports made on a periodic basis.
(iv) Identification of discrepancies, conflicts or ambiguities in modification work documents that require resolution.
(v) Identification of any health and safety issues that have arisen in connection with the modification work.

(h) Preparation of daily logs of modification work, including documentation of personnel, weather conditions and on-site occurrences.
(i) Preparation of any submittals or shop drawings used by the prime contractor to illustrate details of the modification work performed.
(j) Administration or supervision of any other activities for which a prime contractor receives a certificate for payment or certificate for final payment based on the progress of modification work performed on the project.

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

(a) Evaluating surveys, reports, test results or any other information on-site conditions for the project, including physical characteristics, legal limitations and utility locations for the site.
(b) Evaluating any criteria or programming objectives for the project to ascertain requirements for the project, such as physical requirements affecting cost or projected utilization of the project.
(c) Preparing drawings and specifications for architectural program documents, schematic design documents, design development documents, modification work documents or documents that identify the scope of or materials for the project.
(d) Preparing an initial schedule for the project, excluding the preparation of updates to the master schedule after modification work has begun.
(e) Preparing preliminary estimates of costs of modification work before completion of the final design of the project, including an estimate or schedule of values for any of the following:

(i) Labor, materials, machinery and equipment, tools, water, heat, utilities, transportation and other facilities and services used in the execution and completion of modification work, regardless of whether they are temporary or permanent or whether they are incorporated in the modifications.
(ii) The cost of labor and materials to be furnished by the owner of the real property.

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

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

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

(vi) Any bond and insurance premiums.

(vii) Any applicable taxes.

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

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

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

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

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

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

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

P. Notwithstanding subsection O of this section, a contract that
primarily involves surface or subsurface improvements to land and that is
subject to title 28, chapter 19, 20 or 22 or title 34, chapter 2 or 6 is
taxable under this section, even if the contract also includes vertical
improvements. Agencies that are subject to procurement processes under
those provisions shall include in the request for proposals a notice to
bidders when those projects are subject to this section. This subsection
does not apply to contracts with:

1. Community facilities districts, fire districts, county
television improvement districts, community park maintenance districts,
cotton pest control districts, hospital districts, pest abatement
districts, health service districts, agricultural improvement districts,
county free library districts, county jail districts, county stadium
districts, special health care districts, public health services
districts, theme park districts or revitalization districts.

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

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

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

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

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

R. For the purposes of this section:

1. "Alteration" means an activity or action that causes a direct physical change to existing property. For the purposes of this paragraph:
   (a) For existing property that is properly classified as class two property under section 42-12002, paragraph 1, subdivision (c) or paragraph 2, subdivision (c) and that is used for residential purposes, class three property under section 42-12003 or class four property under section 42-12004, this paragraph does not apply if the contract amount is more than twenty-five percent of the most recent full cash value established under chapter 13, article 2 of this title as of the date of any bid for the work or the date of the contract, whichever value is higher.
   (b) For all existing property other than existing property described in subdivision (a) of this paragraph, this paragraph does not apply if the contract amount is more than $750,000.
   (c) Project elements may not be artificially separated from a contract to cause a project to qualify as an alteration. The department has the burden of proof that project elements have been artificially separated from a contract.
   (d) If a project for which the owner and the person performing the work reasonably believed, at the inception of the contract, would be treated as an alteration under this paragraph and, on completion of the project, the project exceeded the applicable threshold described in either subdivision (a) or (b) of this paragraph by no more than twenty-five percent of the applicable threshold for any reason, the work performed under the contract qualifies as an alteration.
   (e) A change order that directly relates to the scope of work of the original contract shall be treated as part of the original contract, and the contract amount shall include any amount attributable to a change order that directly relates to the scope of work of the original contract.
   (f) Alteration does not include maintenance, repair or replacement.

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

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

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

5. "Manufactured building dealer" means a dealer who either:
   (a) Is licensed pursuant to title 41, chapter 37, article 4 and who
   sells manufactured buildings to the final consumer.
   (b) Supervises, performs or coordinates the excavation and
   completion of site improvements or the setup of a manufactured building,
   including the contracting, if any, with any subcontractor or specialty
   contractor for the completion of the contract.

6. "Modification" means construction, grading and leveling ground,
wreckage or demolition. Modification does not include:
   (a) Any project described in subsection O of this section.
   (b) Any wreckage or demolition of existing property, or any other
   activity that is a necessary component of a project described in
   subsection O of this section.
   (c) Any mobilization or demobilization related to a project
described in subsection O of this section, such as the erection or removal
of temporary facilities to be used by those persons working on the
project.

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

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

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

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

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

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

Sec. 4. Section 42-12006, Arizona Revised Statutes, is amended to
read:

42-12006. Class six property
For the purposes of taxation, class six is established consisting of:

1. Noncommercial historic property as defined in section 42-12101
and valued at full cash value.

2. Real and personal property that is located within the area of a
foreign trade zone or subzone established under 19 United States Code
sections 81 through 81u and title 44, chapter 18, that is
activated for foreign trade zone use by the district director of the
United States customs service pursuant to 19 Code of Federal Regulations
section 146.6 and that is valued at full cash value. Property that is
classified under this paragraph shall not thereafter be classified under
paragraph 6 of this section.

3. Real and personal property and improvements that are located in
a military reuse zone that is established under title 41, chapter 10,
article 3 and that is devoted to providing aviation or aerospace services
or to manufacturing, assembling or fabricating aviation or aerospace
products, valued at full cash value and subject to the following terms and
conditions:
   (a) Property may not be classified under this paragraph for more
than five tax years.
   (b) Any new addition or improvement to property already classified
under this paragraph qualifies separately for classification under this
paragraph for not more than five tax years.
   (c) If a military reuse zone is terminated, the property in that
zone that was previously classified under this paragraph shall be
reclassified as prescribed by this article.
(d) Property that is classified under this paragraph shall not thereafter be classified under paragraph 6 of this section.

4. Real and personal property and improvements or a portion of such property comprising an environmental technology manufacturing, producing or processing facility that qualified under section 41-1514.02, valued at full cash value and subject to the following terms and conditions:
   (a) Property shall be classified under this paragraph for twenty tax years from the date placed in service.
   (b) Any addition or improvement to property already classified under this paragraph qualifies separately for classification under this subdivision for an additional twenty tax years from the date placed in service.
   (c) After revocation of certification under section 41-1514.02, property that was previously classified under this paragraph shall be reclassified as prescribed by this article.
   (d) Property that is classified under this paragraph shall not thereafter be classified under paragraph 6 of this section.

5. That portion of real and personal property that is used on or after January 1, 1999 specifically and solely for remediation of the environment by an action that has been determined to be reasonable and necessary to respond to the release or threatened release of a hazardous substance by the department of environmental quality pursuant to section 49-282.06 or pursuant to its corrective action authority under rules adopted pursuant to section 49-922, subsection B, paragraph 4 or by the United States environmental protection agency pursuant to the national contingency plan (40 Code of Federal Regulations part 300) and that is valued at full cash value. Property that is not being used specifically and solely for the remediation objectives described in this paragraph shall not be classified under this paragraph. For the purposes of this paragraph, "remediation of the environment" means one or more of the following actions:
   (a) Monitoring, assessing or evaluating the release or threatened release.
   (b) Excavating, removing, transporting, treating and disposing of contaminated soil.
   (c) Pumping and treating contaminated water.
   (d) TREATING, CONTAINING OR REMOVING of contaminants in groundwater or soil.

6. Real and personal property and improvements constructed or installed from and after December 31, 2004 through December 31, 2024 and owned by a qualified business under section 41-1516 and used solely for the purpose of harvesting, transporting or processing qualifying forest products removed from qualifying projects as defined in section 41-1516. The classification under this paragraph is subject to the following terms and conditions:
(a) Property may be initially classified under this paragraph only in valuation years 2005 through 2024.

(b) Property may not be classified under this paragraph for more than five years.

(c) Any new addition or improvement, constructed or installed from and after December 31, 2004 through December 31, 2024, to property already classified under this paragraph qualifies separately for classification and assessment under this paragraph for not more than five years.

(d) Property that is classified under this paragraph shall not thereafter be classified under paragraph 2, 3 or 4 of this section.

7. Real and personal property and improvements to the property that are used specifically and solely to manufacture from and after December 31, 2006 through December 31, 2023 biodiesel fuel that is one hundred percent biodiesel and its by-products or motor vehicle biofuel and its by-products and that are valued at full cash value. This paragraph applies only to the portion of property that is used specifically for manufacturing and processing one hundred per cent biodiesel fuel, or its related by-products, or motor vehicle biofuel, or its related by-products, from raw feedstock obtained from off-site sources, including necessary on-site storage facilities that are intrinsically associated with the manufacturing process. Any other commercial or industrial use disqualifies the entire property from classification under this paragraph. For the purposes of this paragraph, “motor vehicle biofuel” means a solid, liquid or gaseous fuel that is derived from biological material such as plant or animal matter, excluding organic material that has been transformed by geological processes into substances such as coal or petroleum or derivatives thereof, and that:

(a) Contains fuel additives in compliance with federal and state law.

(b) Is manufactured exclusively for use in a motor vehicle.

8. Real and personal property and improvements that are certified pursuant to section 41-1511, subsection C, paragraph 2 and that are used for renewable energy manufacturing or headquarters operations as provided by section 42-12057. This paragraph applies only to property that is used in manufacturing and headquarters operations of renewable energy companies, including necessary on-site research and development, testing and storage facilities that are associated with the manufacturing process. Up to ten percent of the aggregate full cash value of the property may be derived from uses that are ancillary to and intrinsically associated with the manufacturing process or headquarters operation. Any additional ancillary property is not qualified for classification under this paragraph. No new properties may be classified pursuant to this paragraph from and after December 31, 2014. Classification under this paragraph is limited to the time periods determined by the Arizona commerce authority pursuant to section 41-1511, subsection C, paragraph 2.
subdivision (a) or (b). Property that is classified under this paragraph shall not thereafter be classified under any other paragraph of this section.

Sec. 5. Section 42-12057, Arizona Revised Statutes, is amended to read:

42-12057. Criteria for renewable energy property

A. To qualify for the classification as class six pursuant to section 42-12006, paragraph 8, the owner of a manufacturing facility or headquarters facility must be certified pursuant to section 41-1511, subsection C and must provide documentation to the county assessor each year that the facility is primarily dedicated to renewable energy manufacturing or regional, national or global renewable energy business headquarters operations.

B. For the purposes of this section, renewable energy operations are limited to manufacturers of, and headquarters for, systems and components that are used or useful in manufacturing renewable energy equipment for the generation, storage, generating, storing, testing and research and development, transmission, transmitting or distribution of distributing electricity from renewable resources, including specialized crates necessary to package the renewable energy equipment manufactured at the facility.

Sec. 6. Section 42-14151, Arizona Revised Statutes, is amended to read:

42-14151. Annual determination of valuation; definition

A. The department shall annually determine the valuation, in the manner prescribed by this article, of all property, owned or leased, and used by taxpayers in the following businesses:

1. Operation of a natural gas distribution system.
2. Operation of a water utility system.
3. Operation of a sewer system or wastewater treatment facility.
4. Operation of an electric generation facility.
5. Operation of an energy storage, electric transmission or distribution system.

B. For the purposes of this article, "generation of electricity" means the process of taking a source of energy, including coal, natural gas, oil, nuclear fuel or renewable sources and converting the energy into electricity to be delivered to customers through a transmission and distribution system.

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

43-222. Income tax credit review schedule

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

1. For years ending in 0 and 5, sections 43-1079.01, 43-1088, 43-1089.04, 43-1167.01 and 43-1175.
2. For years ending in 1 and 6, sections 43-1072.02, 43-1074.02, 43-1075, 43-1076.01, 43-1077, 43-1078, 43-1083, 43-1083.02, 43-1162, 43-1164.03 and 43-1183.
3. For years ending in 2 and 7, sections 43-1073, 43-1085, 43-1086, 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1164, 43-1169 and 43-1181.
4. For years ending in 3 and 8, sections 43-1074.01, 43-1081, 43-1168, 43-1170 and 43-1178.
5. For years ending in 4 and 9, sections 43-1073.01, 43-1076, 43-1081.01, 43-1083.03, 43-1084, 43-1164.04, 43-1164.05 and 43-1184.

Sec. 8. Section 43-405, Arizona Revised Statutes, is amended to read:

43-405. Extension of withholding to gambling winnings

A. For the purposes of this title, payments of prize winnings that are subject to federal withholding pursuant to section 1441 or section 3402(q) of the internal revenue code by any of the following shall be treated as if they were payments of wages by an employer to employees for a payroll period:
1. The Arizona state lottery commission under title 5, chapter 5.1.
2. A permittee conducting horse or dog racing under title 5, chapter 1.
3. A FANTASY SPORTS CONTEST OPERATOR UNDER TITLE 5, CHAPTER 10.
4. AN EVENT WAGERING OPERATOR UNDER TITLE 5, CHAPTER 11.

B. The lottery commission and permittees ENTITIES LISTED IN SUBSECTION A OF THIS SECTION shall deduct and withhold from each payment of prize winnings made to an individual an amount equal to twenty percent of the amount withheld pursuant to section 1441 or section 3402(q) of the internal revenue code and pay that amount to the department pursuant to this article.

Sec. 9. Section 43-1014, Arizona Revised Statutes, is amended to read:

43-1014. Entity-level tax election; partnerships; S corporations

A. For taxable years beginning from and after December 31, 2021, the partners or shareholders of a business that is treated as a partnership or S corporation for federal income tax purposes may consent to be taxed at the entity level at a rate of four and one-half percent of the entire portion of its taxable income that is attributable to its resident partners or shareholders and the portion of its taxable income derived from sources within this state that is attributable to its nonresident partners or shareholders for that taxable year. The election under this subsection must be made on or before the due date or extended due date of the business's return under this title.

B. If the election is made under subsection A of this section, all of the following apply:
1. The taxable income of the partnership or S corporation shall be computed under this chapter or chapter 14 of this title, as applicable IS AS FOLLOWS:
   (a) FOR A PARTNERSHIP, THE ARIZONA TAXABLE INCOME DETERMINED UNDER CHAPTER 14 OF THIS TITLE.
   (b) FOR AN S CORPORATION, THE TOTAL OF ALL DISTRIBUTIVE INCOME PASSED THROUGH TO THE SHAREHOLDERS UNDER SECTION 43-1126, SUBSECTION B.

2. If the partnership or S corporation does not pay the amount owed to the department as a result of the election under this section, the department may collect the amount from the partners or shareholders based on the proportionate share of income that is attributable to each partner or shareholder for Arizona tax purposes.

3. The partnership or S corporation shall pay estimated tax pursuant to section 43-581 as necessary.

C. The election under subsection A of this section does not apply to the following:
   1. Partners or shareholders that are not individuals, estates or trusts. The portion of the taxable income attributable to a partner or shareholder that is not an individual, estate or trust is not included in the entity-level tax under subsection A of this section.
   2. Partners or shareholders who are individuals, estates or trusts and who opt out or waive the right to opt out of the election pursuant to subsection D of this section. The portion of the taxable income attributable to a partner or shareholder who is an individual, estate or trust and who opts out or waives the right to opt out of the election pursuant to subsection D of this section is not included in the entity-level tax under subsection A of this section.

D. A partnership or S corporation that intends to make the election under subsection A of this section shall notify all partners or shareholders who are individuals, estates or trusts of the intent to make the election and that each partner or shareholder who is an individual, estate or trust has the right to opt out of the election. The notice shall allow each partner or shareholder who is an individual, estate or trust at least sixty days after receiving the notice to notify the partnership or S corporation that the partner or shareholder who is an individual, estate or trust is exercising the partner's or shareholder's right to opt out of the election. If the partner or shareholder who is an individual, estate or trust does not respond within the sixty-day period or waives the right to opt out, the partner or shareholder will be included in the election.

E. The department shall adopt rules and prescribe forms and procedures as necessary to administer this section.
Sec. 10. Section 43-1021, Arizona Revised Statutes, is amended to read:

43-1021. Addition to Arizona gross income

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

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

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

3. The amount of interest income received on obligations of any state, territory or possession of the United States, or any political subdivision thereof, located outside the state of Arizona, reduced, for 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 either section 43-1081 or 43-1081.01 OR THAT IS POLLUTION CONTROL EQUIPMENT FOR WHICH A CREDIT WAS TAKEN BEFORE TAXABLE YEAR 2022 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 43-1074.02, 43-1081 or 43-1081.01 OR THAT IS POLLUTION CONTROL EQUIPMENT FOR WHICH A CREDIT WAS TAKEN BEFORE TAXABLE YEAR 2022 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 OR FOR POLLUTION CONTROL EQUIPMENT, THE SECTION IN WHICH THE CREDIT WAS TAKEN, as applicable.
9. 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.

10. 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.

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

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

13. If a subtraction is or has been taken by the taxpayer under section 43-1024, 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 taxable income for the current taxable year.

14. 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 to pay debts, public charges, taxes and dues.
   (b) "Specie" means coins having precious metal content.

15. For taxable years beginning from and after December 31, 2021, the amount deducted by the partnership or S corporation pursuant to the internal revenue code for the amount paid to this state under section 43-1014 and for taxes that the department determines are substantially similar to the tax imposed under section 43-1014. This amount shall be reflected in the partner's or shareholder's Arizona gross income and the partnership's or S corporation's Arizona taxable income.
Sec. 11. Section 43-1022, Arizona Revised Statutes, is amended to read:

43-1022. Subtractions from Arizona gross income

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

1. The amount of exemptions allowed by section 43-1023.
2. Benefits, annuities and pensions in an amount totaling not more than $2,500 received from one or more of the following:
   (a) The United States government service retirement and disability fund, the United States foreign service retirement and disability system and any other retirement system or plan established by federal law, except retired or retainer pay of the uniformed services of the United States that qualifies for a subtraction under paragraph 26 of this section.
   (b) The Arizona state retirement system, the corrections officer retirement plan, the public safety personnel retirement system, the elected officials' retirement plan, an optional retirement program established by the Arizona board of regents under section 15-1628, an optional retirement program established by a community college district board under section 15-1451 or a retirement plan established for employees of a county, city or town in this state.
3. A beneficiary's share of the fiduciary adjustment to the extent that the amount determined by section 43-1333 decreases the beneficiary's Arizona gross income.
4. Interest income received on obligations of the United States, minus any interest on indebtedness, or other related expenses, and deducted in arriving at Arizona gross income, that were incurred or continued to purchase or carry such obligations.
5. The excess of a partner's share of income required to be included under section 702(a)(8) of the internal revenue code over the income required to be included under chapter 14, article 2 of this title.
6. The excess of a partner's share of partnership losses determined pursuant to chapter 14, article 2 of this title over the losses allowable under section 702(a)(8) of the internal revenue code.
7. The amount allowed by section 43-1025 for contributions during the taxable year of agricultural crops to charitable organizations.
8. The portion of any wages or salaries paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal work opportunity credit, the empowerment zone employment credit, the credit for employer paid social security taxes on employee cash tips and the Indian employment credit that the taxpayer received under sections 45A, 45B, 51(a) and 1396 of the internal revenue code.
9. The amount of exploration expenses that is determined pursuant to section 617 of the internal revenue code, that has been deferred in a taxable year ending before January 1, 1990 and for which a subtraction has not previously been made. The subtraction shall be made on a ratable
basis as the units of produced ores or minerals discovered or explored as a result of this exploration are sold.

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

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

12. The amount of unreimbursed medical and hospital costs, adoption counseling, legal and agency fees and other nonrecurring costs of adoption not to exceed $3,000. 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 may not exceed $3,000. The subtraction under this paragraph may be taken for the costs that are described in this paragraph and that are incurred in prior years, but the subtraction may be taken only in the year during which the final adoption order is granted.

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

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

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

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

17. For property placed in service:

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

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

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

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

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

18. With respect to property that is sold or otherwise disposed of
during the taxable year by a taxpayer that complied with section 43-1021,
paragraph 11 with respect to that property, the amount of depreciation
that has been allowed pursuant to section 167(a) of the internal revenue
code to the extent that the amount has not already reduced Arizona taxable
income in the current or prior taxable years.

19. The amount contributed during the taxable year to college
savings plans established pursuant to section 529 of the internal revenue
code on behalf of the designated beneficiary to the extent that the
contributions were not deducted in computing federal adjusted gross
income. The amount subtracted may not exceed:

(a) $2,000 per beneficiary for a single individual or a head of
household.

(b) $4,000 per beneficiary 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 may not
exceed $4,000 per beneficiary.

20. 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).
21. 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.
22. An amount of any net long-term capital gain included in federal
adjusted gross income for the taxable year that is derived from an
investment in an asset acquired after December 31, 2011, as follows:
(a) For taxable years beginning from and after December 31, 2012
through December 31, 2013, ten percent of the net long-term capital gain
included in federal adjusted gross income.
(b) For taxable years beginning from and after December 31, 2013
through December 31, 2014, twenty percent of the net long-term capital
gain included in federal adjusted gross income.
(c) For taxable years beginning from and after December 31, 2014,
twenty-five percent of the net long-term capital gain included in federal
adjusted gross income. For the purposes of this paragraph, a transferee
that receives an asset by gift or at the death of a transferor is
considered to have acquired the asset when the asset was acquired by the
transferor. If the date an asset is acquired cannot be verified, a
subtraction under this paragraph is not allowed.
23. If an individual is not claiming itemized deductions pursuant
to section 43-1042, the amount of premium costs for long-term care
insurance, as defined in section 20-1691.
24. The amount of eligible access expenditures paid or incurred
during the taxable year to comply with the requirements of the Americans
with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9,
article 8 as provided by section 43-1024.
25. For taxable years beginning from and after December 31, 2017,
the amount of any net capital gain 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 to pay
debts, public charges, taxes and dues.
(b) "Specie" means coins having precious metal content.

26. Benefits, annuities and pensions received as retired or retainer pay of the uniformed services of the United States in amounts as follows:
   (a) For taxable years through December 31, 2018, an amount totaling not more than $2,500.
   (b) For taxable years beginning from and after December 31, 2018 through December 31, 2020, an amount totaling not more than $3,500.
   (c) For taxable years beginning from and after December 31, 2020, the full amount received.

27. For taxable years beginning from and after December 31, 2020, the amount contributed during the taxable year to an achieving a better life experience account established pursuant to section 529A of the internal revenue code on behalf of the designated beneficiary to the extent that the contributions were not deducted in computing federal adjusted gross income. The amount subtracted may not exceed:
   (a) $2,000 per beneficiary for a single individual or a head of household.
   (b) $4,000 per beneficiary 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 may not exceed $4,000 per beneficiary.

28. For taxable years beginning from and after December 31, 2020, Arizona small business adjusted gross income, but only if an individual taxpayer has elected to separately report and pay tax on the taxpayer's Arizona small business adjusted gross income on the Arizona small business income tax return.

Sec. 12. Title 43, chapter 10, article 3, Arizona Revised Statutes, is amended by adding section 43-1026, to read:

43-1026. Additions and subtractions filed on Arizona small business income tax returns

A TAXPAYER WHO ELECTS TO FILE AN ARIZONA SMALL BUSINESS INCOME TAX RETURN UNDER SECTION 43-302 FOR THE TAXABLE YEAR MAY NOT MAKE THE ADDITIONS OR SUBTRACTIONS UNDER SECTION 43-1021 OR 43-1022 TO THE TAXPAYER'S INDIVIDUAL INCOME TAX RETURN FOR AMOUNTS THAT ARE CORRECTLY MADE AS ADDITIONS OR SUBTRACTIONS ON THE TAXPAYER'S ARIZONA SMALL BUSINESS INCOME TAX RETURN UNDER SECTION 43-1721.

Sec. 13. Section 43-1073, Arizona Revised Statutes, is amended to read:

43-1073. Family income tax credit

A. Subject to the conditions prescribed by this section, a credit is allowed against the taxes imposed by this chapter for a taxable year for taxpayers whose Arizona adjusted gross income, plus the amount subtracted for exemptions under section 43-1023 AND THE AMOUNT SUBTRACTED
FOR ARIZONA SMALL BUSINESS GROSS INCOME UNDER SECTION 43-1022, PARAGRAPH 28, is:

1. $20,000 or less in the case of a married couple filing a joint return with not more than one dependent or a single person who is a head of a household with not more than one dependent.

2. $23,600 or less in the case of a married couple filing a joint return with two dependents.

3. $27,300 or less in the case of a married couple filing a joint return with three dependents.

4. $31,000 or less in the case of a married couple filing a joint return with four or more dependents.

5. $20,135 or less in the case of a single person who is a head of a household with two dependents.

6. $23,800 or less in the case of a single person who is a head of a household with three dependents.

7. $25,200 or less in the case of a single person who is a head of a household with four dependents.

8. $26,575 or less in the case of a single person who is a head of a household with five or more dependents.

9. $10,000 or less in the case of a single person or a married person filing separately.

B. The amount of the credit is equal to $40 for each person who is a resident of this state and who is either the taxpayer, the taxpayer's spouse who does not file a return or a dependent but may not exceed:

1. $240 in the case of a married couple filing a joint return or a single person who is a head of a household.

2. $120 in the case of a single person or a married couple filing separately.

3. For any taxpayer, the amount of taxes due under this chapter for the taxable year.

Sec. 14. Repeal
Sections 43-1076 and 43-1081, Arizona Revised Statutes, are repealed.

Sec. 15. Section 43-1081.01, Arizona Revised Statutes, is amended to read:

43-1081.01. Credit for agricultural pollution control equipment

A. A credit is allowed against the taxes imposed by this title for expenses that a taxpayer, involved in the commercial production of livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products, incurred during the taxable year to purchase tangible personal property that is primarily used in the taxpayer's trade or business in this state to control or prevent pollution. The amount of the credit is equal to twenty-five percent of
the cost of the real or personal property. The maximum credit that a
taxpayer may claim under this section is $25,000 in a taxable year.

B. Property that qualifies for the credit under this section
includes the portion of a structure, building, installation, excavation,
machine, equipment or device and any attachment or addition to or
reconstruction, replacement or improvement of that property that is
directly used, constructed or installed in this state to prevent, monitor,
control or reduce air, water or land pollution.

C. Amounts that qualify for a credit under this section must be
includible in the taxpayer's adjusted basis for the property. The
adjusted basis of any property with respect to which the taxpayer has
claimed a credit shall be reduced by the amount of credit claimed with
respect to that asset. This credit does not affect the deductibility for
depreciation or amortization of the remaining adjusted basis of the asset.

D. Co-owners of a business, including individual 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 may not exceed the amount that would have
been allowed a sole owner.

E. If the allowable tax credit 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 claim not used to offset the taxes
under this title may be carried forward to the next five consecutive
taxable years as a credit against subsequent years' income tax liability.

F. A taxpayer who claims a credit for pollution control equipment
under this section shall not claim a credit under section 43-1081 for the
same equipment or expense.

Sec. 16. Section 43-1121, Arizona Revised Statutes, is amended to
read:

43-1121. Additions to Arizona gross income; corporations
In computing Arizona taxable income for a corporation, the following
amounts shall be added to Arizona gross income:

1. The amount of interest income received on obligations of any
state, territory or possession of the United States, or any political
subdivision thereof, located outside this state, reduced, for 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.

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

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

5. The amount of dividend income received from corporations and allowed as a deduction pursuant to sections 243, 245, 245A and 250(a)(1)(B) of the internal revenue code.

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

7. 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.

8. 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.

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

10. The amount of exploration expenses determined pursuant to section 617 of the internal revenue code to the extent that they exceed $75,000 and to the extent that the election is made to defer those expenses not in excess of $75,000.

11. 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.

12. 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.
13. 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.

14. 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.

15. 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.

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 43-1170 exceeds the amount of depreciation or amortization computed pursuant to the internal revenue code on the Arizona adjusted basis of the property.

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 43-1170 and that is sold or otherwise disposed of during the taxable year exceeds the adjusted basis of the property computed under section 43-1170.

18. 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.

19. 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.

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

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

22. Any amount deducted 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.

23. 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.

**24.** 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 to pay debts, public charges, taxes and dues.

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

**25.** 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.

Sec. 17. Section 43-1130.01, Arizona Revised Statutes, is amended to read:

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

A. This section applies if:

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

2. A deduction would be allowable under the internal revenue code or this title for the taxable year, without application of section 1341(b)(3) of the internal revenue code or section 43-1121, paragraph **26**, because after the close of the prior taxable year or years it was established that the taxpayer did not have an unrestricted right to all or part of the item.

3. The amount of the deduction exceeds $3,000.

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) 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) 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. 18. **Repeal**

Section 43-1169, Arizona Revised Statutes, is repealed.
Sec. 19. Section 43-1170, Arizona Revised Statutes, is amended to read:

43-1170. Credit for pollution control equipment

A. A credit is allowed against the taxes imposed by this title for expenses that the taxpayer incurred during the taxable year to purchase real or personal property that is used in the taxpayer's trade or business in this state to control or prevent pollution. The amount of the credit is equal to ten percent of the purchase price.

B. Property that qualifies for the credit under this section includes that portion of a structure, building, installation, excavation, machine, equipment or device and any attachment or addition to or reconstruction, replacement or improvement of that property that is directly used, constructed or installed in this state for the purpose of meeting or exceeding rules or regulations adopted by the United States environmental protection agency, the department of environmental quality or a political subdivision of this state to prevent, monitor, control or reduce air, water or land pollution that results from the taxpayer's direct operating activities in conducting a trade or business in this state.

C. The credit allowed pursuant to this section does not apply to:

1. The purchase of any personal property that is attached to a motor vehicle.

2. Any property that has a substantial use for a purpose other than the purposes described in subsection B.

3. Any portion of pollution control property that is included as a standard and integral part of another property.

D. Amounts that qualify for a credit under this section must be includible in the taxpayer's adjusted basis for the property. The adjusted basis of any property with respect to which the taxpayer has claimed a credit shall be reduced by the amount of credit claimed with respect to that asset. This credit does not affect the deductibility for depreciation or amortization of the remaining adjusted basis of the asset.

E. 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. PARTNERS IN A PARTNERSHIP THAT IS NOT A CORPORATION MAY NOT CLAIM A SHARE OF THE CREDIT. The total of the credits allowed all such owners may not exceed the amount that would have been allowed a sole owner.

F. If the allowable tax credit exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the taxpayer may carry the amount of the claim not used to offset the taxes under this title forward for not more than five taxable years' income tax liability.

G. The maximum credit that a taxpayer may claim under this section is five hundred thousand dollars in a taxable year.
Sec. 20. Section 43-1311, Arizona Revised Statutes, is amended to read:

**43-1311. Tax imposed on estates and trusts; rates; annual adjustment**

A. Except for trusts that are taxable as partnerships or corporations under the internal revenue code, the income of estates or of any kind of property held in trust is subject only to the income tax imposed by subsection B of this section.

B. There shall be levied, collected and paid for each taxable year on the entire taxable income of every resident trust of this state and on the entire taxable income of nonresident trust that is derived from sources within this state taxes determined in the following manner:

1. For taxable years beginning from and after December 31, 2020 through December 31, 2021:

<table>
<thead>
<tr>
<th>If taxable income is:</th>
<th>The tax is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 — $27,272</td>
<td>2.59% of taxable income</td>
</tr>
<tr>
<td>$27,273 — $54,544</td>
<td>$686, plus 3.34% of the amount over $27,272</td>
</tr>
<tr>
<td>$54,545 — $163,632</td>
<td>$1,571, plus 4.17% of the amount over $54,544</td>
</tr>
<tr>
<td>$163,633 and over</td>
<td>$5,991, plus 4.50% of the amount over $163,632</td>
</tr>
</tbody>
</table>

2. Subject to subsection C of this section, for taxable years beginning from and after December 31, 2021 through December 31 of the year in which notice is provided to the department pursuant to section 43-244, subsection A or subsection B, paragraph 1:

<table>
<thead>
<tr>
<th>If taxable income is:</th>
<th>The tax is:</th>
</tr>
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<tbody>
<tr>
<td>$0 — $27,272</td>
<td>2.55% of taxable income</td>
</tr>
<tr>
<td>$27,273 and over</td>
<td>$695, plus 2.98% of the amount over $27,272</td>
</tr>
</tbody>
</table>

3. Subject to subsection C of this section, for taxable years beginning from and after December 31 of the year in which notice is provided to the department pursuant to section 43-244, subsection A or subsection B, paragraph 1 through December 31 of the year in which notice is provided to the department pursuant to section 43-244, subsection B, paragraph 2:

<table>
<thead>
<tr>
<th>If taxable income is:</th>
<th>The tax is:</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 — $27,272</td>
<td>2.53% of taxable income</td>
</tr>
<tr>
<td>$27,273 and over</td>
<td>$690, plus 2.75% of the amount over $27,272</td>
</tr>
</tbody>
</table>

4. For taxable years beginning from and after December 31 of the year in which notice is provided to the department pursuant to section 43-244, subsection B, paragraph 2, the tax is 2.5% of taxable income.

C. For each taxable year beginning from and after December 31, 2020 through December 31, 2021, the department shall adjust the income dollar amount for each
rate bracket prescribed by subsection B, paragraphs 2 and 3 of this section, as applicable, according to the average annual change in the metropolitan Phoenix consumer price index published by the United States department of labor, bureau of labor statistics. The revised dollar amounts shall be raised to the nearest whole dollar. The income dollar amounts for each rate bracket may not be revised below the amounts prescribed in the prior taxable year.

Sec. 21. Title 43, chapter 13, article 6, Arizona Revised Statutes, is amended by adding section 43-1382, to read:

43-1382. Credit for entity-level income tax

A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2021, A CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR A TAXPAYER WHO IS A PARTNER IN A PARTNERSHIP OR A SHAREHOLDER OF AN S CORPORATION THAT ELECTS TO PAY THE TAX UNDER SECTION 43-1014.

B. THE AMOUNT OF THE CREDIT IS THE PORTION OF THE TAX PAID BY THE PARTNERSHIP OR S CORPORATION UNDER SECTION 43-1014 THAT IS ATTRIBUTABLE TO THE PARTNER’S OR SHAREHOLDER’S SHARE OF INCOME TAXABLE IN THIS STATE.


D. IF THE ALLOWABLE CREDIT EXCEEDS THE TAXES DUE UNDER THIS TITLE ON THE CLAIMANT’S INCOME, OR IF THERE ARE NOT TAXES DUE UNDER THIS TITLE, THE AMOUNT OF THE CLAIM NOT USED TO OFFSET TAXES DUE UNDER THIS TITLE MAY BE CARRIED FORWARD FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE YEARS AS A CREDIT AGAINST SUBSEQUENT YEARS’ INCOME TAX LIABILITY.

Sec. 22. Additions to Arizona gross income; corporations; depreciation, amortization and adjusted bases for qualified environmental technology facilities

In computing Arizona taxable income for a corporation pursuant to section 43-1121, Arizona Revised Statutes, as amended by this act, the following amounts shall be added to Arizona gross income as long as applicable:

1. 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, Arizona Revised Statutes, as repealed by this act, exceeds the amount of depreciation or amortization computed pursuant to the internal revenue code on the Arizona adjusted basis of the property.

2. 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, Arizona Revised Statutes, as repealed by this act, and that is sold or otherwise disposed of during the taxable
year exceeds the adjusted basis of the property computed under section 43-1169, Arizona Revised Statutes, as repealed by this act.

Sec. 23. Retroactivity

A. Section 43-1311, Arizona Revised Statutes, as amended by this act, applies retroactively to taxable years beginning from and after December 31, 2020.

B. Section 43-1382, Arizona Revised Statutes, as added by this act, applies retroactively to taxable years beginning from and after December 31, 2021.

Sec. 24. Saving clause

The repeal of the income tax credits by this act does not affect the continuing validity of any amount of the credit carried forward from previous taxable years for application against subsequent tax liabilities as allowed by prior law.

APPROVED BY THE GOVERNOR MAY 20, 2022.