

State of Arizona
Senate
Fifty-fifth Legislature
First Regular Session
2021

SB 1828

Introduced by
Senators Mesnard: Borrelli, Fann, Gowan, Gray, Leach (with permission of
Committee on Rules)

AN ACT

AMENDING SECTIONS 15-972 AND 20-224, ARIZONA REVISED STATUTES; AMENDING TITLE 20, CHAPTER 2, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 20-224.04; REPEALING SECTION 20-224.04, ARIZONA REVISED STATUTES; AMENDING SECTIONS 23-622, 23-771, 23-779 AND 23-780, ARIZONA REVISED STATUTES; AMENDING TITLE 23, CHAPTER 4, ARTICLE 7, ARIZONA REVISED STATUTES, BY ADDING SECTION 23-799.01; AMENDING SECTION 41-1518, ARIZONA REVISED STATUTES; AMENDING TITLE 41, CHAPTER 37, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTION 41-3954; REPEALING SECTION 41-3954, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2019, CHAPTER 273, SECTION 7 AND CHAPTER 288, SECTION 1; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2019, CHAPTER 273, SECTION 8 AND CHAPTER 288, SECTION 2; AMENDING SECTIONS 42-5159 AND 42-15001, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 2, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-205; AMENDING SECTION 43-222, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 2, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-225; REPEALING SECTION 43-225, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-581, 43-1011, 43-1022, 43-1041, 43-1073.01 AND 43-1074.02, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1075; REPEALING SECTION 43-1075, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1076.01; AMENDING

SECTIONS 43-1089.01 AND 43-1122, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 11, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTIONS 43-1162 AND 43-1163; REPEALING SECTION 43-1163, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1184, 43-1504, 43-1603 AND 48-807, ARIZONA REVISED STATUTES; APPROPRIATING MONIES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 15-972, Arizona Revised Statutes, is amended to
3 read:

4 15-972. State limitation on homeowner property taxes;
5 additional state aid to school districts;
6 definitions

7 A. Notwithstanding section 15-971, there shall be additional state
8 aid for education computed for school districts as provided in subsection
9 B of this section.

10 B. The clerk of the board of supervisors shall compute such
11 additional state aid for education as follows:

12 1. For a high school district or for a common school district
13 within a high school district that does not offer instruction in high
14 school subjects as provided in section 15-447:

15 (a) Determine the qualifying tax rate pursuant to section 41-1276
16 for the school district.

17 (b) Determine ~~47.19 percent~~ THE FOLLOWING PERCENTAGE of the
18 qualifying tax rate determined in subdivision (a) of this paragraph: ~~—~~

19 (i) 47.19 PERCENT THROUGH DECEMBER 31, 2021.

20 (ii) FIFTY PERCENT BEGINNING FROM AND AFTER DECEMBER 31, 2021.

21 (c) Select the lesser of the amount determined in subdivision (b)
22 of this paragraph or ~~47.19~~ FIFTY percent of the primary property tax rate
23 that would be levied in lieu of this section for the district.

24 (d) Multiply the rate selected in subdivision (c) of this paragraph
25 as a rate per \$100 assessed valuation by the assessed valuation used for
26 primary property taxes of the residential property in the school district.

27 2. For a unified school district, for a common school district not
28 within a high school district or for a common school district that offers
29 instruction in high school subjects as provided in section 15-447:

30 (a) Determine the qualifying tax rate pursuant to section 41-1276
31 for the school district.

32 (b) Determine ~~47.19 percent~~ THE FOLLOWING PERCENTAGE of the
33 qualifying tax rate determined in subdivision (a) of this paragraph: ~~—~~

34 (i) 47.19 PERCENT THROUGH DECEMBER 31, 2021.

35 (ii) FIFTY PERCENT BEGINNING FROM AND AFTER DECEMBER 31, 2021.

36 (c) Select the lesser of the amount determined in subdivision (b)
37 of this paragraph or ~~47.19~~ FIFTY percent of the primary property tax rate
38 that would be levied in lieu of this section for the district.

39 (d) Multiply the rate selected in subdivision (c) of this paragraph
40 as a rate per \$100 assessed valuation by the assessed valuation used for
41 primary property taxes of the residential property in the district.

42 C. The clerk of the board of supervisors shall report to the
43 department of revenue not later than the Friday following the third Monday
44 in August of each year the amount by school district of additional state
45 aid for education and the data used for computing the amount as provided

1 in subsection B of this section. The department of revenue shall verify
2 all of the amounts and report to the county board of supervisors not later
3 than August 30 of each year the property tax rate or rates that shall be
4 used for property tax reduction as provided in subsection E of this
5 section.

6 D. The board of supervisors shall reduce the property tax rate or
7 rates that would be levied in lieu of this section by the school district
8 or districts on the assessed valuation used for primary property taxes of
9 the residential property in the school district or districts by the rate
10 or rates selected in subsection B, paragraph 1, subdivision (c) and
11 paragraph 2, subdivision (c) of this section. The excess of the reduction
12 in property taxes for a parcel of property resulting from the reduction in
13 the property tax rate pursuant to this subsection over the amounts listed
14 in this subsection shall be deducted from the amount of additional state
15 aid for education. The reduction in property taxes on a parcel of
16 property resulting from the reduction in the property tax rate pursuant to
17 this subsection shall not exceed \$600, except as provided in subsection I
18 of this section.

19 E. Before levying taxes for school purposes, the board of
20 supervisors shall determine whether the total primary property taxes to be
21 levied for all taxing jurisdictions on each parcel of residential
22 property, in lieu of this subsection, violate article IX, section 18,
23 Constitution of Arizona. For those properties that qualify for property
24 tax exemptions pursuant to article IX, sections 2, 2.1 and 2.2,
25 Constitution of Arizona, eligibility for the credit is determined on the
26 basis of the limited property value that corresponds to the taxable
27 assessed value after reduction for the applicable exemption. If the board
28 of supervisors determines that such a situation exists, the board shall
29 apply a credit against the primary property taxes due from each such
30 parcel in the amount in excess of article IX, section 18, Constitution of
31 Arizona. Such excess amounts shall also be additional state aid for
32 education for the school district or districts in which the parcel of
33 property is located.

34 F. The clerk of the board of supervisors shall report to the
35 department of revenue not later than September 5 of each year the amount
36 by school district of additional state aid for education and the data used
37 for computing the amount as provided in subsection B of this section. The
38 department of revenue shall verify all of the amounts and report to the
39 board of supervisors not later than September 10 of each year the property
40 tax rate that shall be used for property tax reduction as provided in
41 subsection E of this section.

42 G. The clerk of the board of supervisors shall report to the
43 department of revenue not later than September 30 of each year in writing
44 the following:

1 1. The data processing specifications used in the calculations
2 provided for in subsections B and E of this section.

3 2. At a minimum, copies of two actual tax bills for residential
4 property for each distinct tax area.

5 H. The department of revenue shall report to the state board of
6 education not later than October 12 of each year the amount by school
7 district of additional state aid for education as provided in this
8 section. The additional state aid for education provided in this section
9 shall be apportioned as provided in section 15-973.

10 I. If a parcel of property is owned by a cooperative apartment
11 corporation or is owned by the tenants of a cooperative apartment
12 corporation as tenants in common, the reduction in the property taxes
13 prescribed in subsection D of this section shall not exceed the amounts
14 listed in subsection D of this section for each owner-occupied housing
15 unit on the property. The assessed value used for determining the
16 reduction in taxes for the property is equal to the total assessed value
17 of the property times the ratio of the number of owner-occupied housing
18 units to the total number of housing units on the property. For the
19 purposes of this subsection, "cooperative apartment corporation" means a
20 corporation:

21 1. Having only one class of outstanding stock.

22 2. Of which all of the stockholders are entitled, solely by reason
23 of their ownership of stock in the corporation, to occupy for dwelling
24 purposes apartments in a building owned or leased by the corporation and
25 that are not entitled, either conditionally or unconditionally, except on
26 a complete or partial liquidation of the corporation, to receive any
27 distribution not out of earnings and profits of the corporation.

28 3. Of which eighty percent or more of the gross income is derived
29 from tenant-stockholders. For the purposes of this paragraph, "gross
30 income" means gross income as defined by the United States internal
31 revenue code, as defined in section 43-105.

32 J. The total amount of state monies that may be spent in any fiscal
33 year for state aid for education in this section shall not exceed the
34 amount appropriated or authorized by section 35-173 for that purpose.
35 This section does not impose a duty on an officer, agent or employee of
36 this state to discharge a responsibility or create any right in a person
37 or group if the discharge or right would require an expenditure of state
38 monies in excess of the expenditure authorized by legislative
39 appropriation for that specific purpose.

40 K. Notwithstanding subsection E of this section, the maximum amount
41 of additional state aid for education that will be funded by this state
42 pursuant to subsection E of this section shall be \$1,000,000 per county.
43 For any county with a school district or districts that collectively would
44 otherwise receive more than \$1,000,000 in additional state aid for
45 education pursuant to subsection E of this section, the property tax

1 oversight commission established by section 42-17002 shall determine the
 2 proportion of the violation of article IX, section 18, Constitution of
 3 Arizona, that is attributable to each taxing jurisdiction within the
 4 affected school district or districts. Based on those proportions, the
 5 property tax oversight commission shall determine an amount that each
 6 taxing jurisdiction within the affected school district or districts shall
 7 transfer to the affected school district or districts during the fiscal
 8 year in order to compensate the affected school district or districts for
 9 its pro rata share of the reduction in additional state aid for education
 10 funding required by this subsection. In determining the proportion of the
 11 violation of article IX, section 18, Constitution of Arizona, that is
 12 attributable to each taxing jurisdiction within the affected school
 13 district or districts, the property tax oversight commission shall assume
 14 a proportion of zero for any taxing jurisdiction that has a tax rate for
 15 the fiscal year that is equal to or less than the tax rate of peer
 16 jurisdictions, as determined by the property tax oversight commission.

17 L. For the purposes of this section:

18 1. "Owner" includes any purchaser under a contract of sale or under
 19 a deed of trust.

20 2. "Residential property" includes owner-occupied real property and
 21 improvements to the property and owner-occupied mobile homes that are used
 22 as the owner's primary residence and classified as class three property
 23 pursuant to section 42-12003.

24 Sec. 2. Section 20-224, Arizona Revised Statutes, is amended to
 25 read:

26 20-224. Premium tax; reports

27 A. On or before March 1 of each year, each authorized domestic
 28 insurer, each other insurer and each formerly authorized insurer referred
 29 in section 20-206, subsection B shall file with the director a report
 30 in a form prescribed by the director showing total direct premium income
 31 including policy membership and other fees and all other considerations
 32 for insurance from all classes of business whether designated as a premium
 33 or otherwise received by it during the preceding calendar year on account
 34 of policies and contracts covering property, subjects or risks located,
 35 resident or to be performed in this state, after deducting from such total
 36 direct premium income applicable cancellations, returned premiums, the
 37 amount of reduction in or refund of premiums allowed to industrial life
 38 policyholders for payment of premiums direct to an office of the insurer
 39 and all policy dividends, refunds, savings coupons and other similar
 40 returns paid or credited to policyholders within this state and not
 41 reapplied as premiums for new, additional or extended insurance. No
 42 deduction shall be made of the cash surrender values of policies or
 43 contracts. Considerations received on annuity contracts, as well as the
 44 unabsorbed portion of any premium deposit, shall not be included in total
 45 direct premium income, and neither shall be subject to tax. The report

1 shall separately indicate the total direct fire insurance premium income
2 received from property located in the incorporated cities and towns
3 certified by the office of the state fire marshal pursuant to section
4 9-951, subsection B, as procuring the services of a private fire company.

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

8 1. For fire insurance:

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

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

13 2. For disability insurance, 2.0 percent.

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

16 4. For other insurance:

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

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

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

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

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

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

24 C. Any payments of tax pursuant to subsection F of this section
25 shall be deducted from the tax payable pursuant to subsection B of this
26 section. Each insurer shall reflect the cost savings attributable to the
27 lower tax in fire insurance premiums charged on property located in an
28 incorporated city or town certified by the office of the state fire
29 marshal pursuant to section 9-951, subsection B, as procuring the services
30 of a private fire company. No insurer shall be liable to the state or to
31 any other person, or shall be subject to regulatory action, relating to
32 the calculation or submittal of fire insurance premium taxes based in good
33 faith on the office of the state fire marshal's certification.

34 D. Eighty-five percent of the tax paid under this section by an
35 insurer on account of premiums received for fire insurance shall be
36 separately specified in the report and shall be apportioned in the manner
37 provided by sections 9-951, 9-952 and 9-972, except that all of the tax so
38 allocated to a fund of a municipality or fire district that has no
39 volunteer firefighters or pension obligations to volunteer firefighters
40 shall be appropriated to the account of the municipality or fire district
41 in the public safety personnel retirement system and all of the tax so
42 allocated to a fund of a municipality or fire district that has both
43 full-time paid firefighters and volunteer firefighters or pension
44 obligations to full-time paid firefighters or volunteer firefighters shall
45 be appropriated to the account of the municipality or fire district in the

1 public safety personnel retirement system where it shall be reallocated by
2 actuarial procedures proportionately to the municipality or fire district
3 for the account of the full-time paid firefighters and to the municipality
4 or fire district for the account of the volunteer firefighters. A
5 municipality or fire district shall provide to the public safety personnel
6 retirement system all information that the system deems necessary to
7 perform the reallocation prescribed by this section. A full accounting of
8 the reallocation shall be forwarded to the municipality or fire district
9 and its local boards.

10 E. This section does not apply to title insurance. Title insurers
11 shall be taxed as provided in section 20-1566.

12 F. Any insurer that paid or is required to pay a tax of \$50,000 or
13 more on net premiums received during the preceding calendar year, pursuant
14 to subsection B of this section and sections 20-224.01, 20-837, 20-1010,
15 20-1060 and 20-1097.07, shall file on or before the fifteenth day of each
16 month from March through August a report for that month, on a form
17 prescribed by the director, accompanied by a payment in an amount equal to
18 fifteen percent of the amount paid or required to be paid during the
19 preceding calendar year pursuant to subsection B of this section and
20 sections 20-224.01, 20-837, 20-1010, 20-1060 and 20-1097.07. The payments
21 are due and payable on or before the fifteenth day of each month and shall
22 be made to the director for deposit, pursuant to sections 35-146 and
23 35-147.

24 G. Except for the tax paid on fire insurance premiums pursuant to
25 subsections B and D of this section, an insurer may claim a premium tax
26 credit if the insurer qualifies for a credit pursuant to section
27 20-224.03, [20-224.04](#), 20-224.06 or 20-224.07.

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

33 I. On or before September 30 of each year, the director of the
34 department of insurance and financial institutions shall report to the
35 directors of the joint legislative budget committee and the governor's
36 office of strategic planning and budgeting on the amount of insurance
37 premium tax credits established by sections 20-224.03, [20-224.04](#),
38 20-224.05, 20-224.06 and 20-224.07 that were used during the previous
39 fiscal year.

40 J. For the purposes of:

41 1. Subsection B of this section, fire insurance is one hundred
42 percent of fire lines, forty percent of commercial multiple peril
43 nonliability lines, thirty-five percent of homeowners' multiple peril
44 lines, twenty-five percent of farm owners' multiple peril lines and twenty
45 percent of allied lines.

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

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

9 Sec. 3. Title 20, chapter 2, article 1, Arizona Revised Statutes,
10 is amended by adding section 20-224.04, to read:

11 20-224.04. Affordable housing premium tax credit

12 A. A TAXPAYER IS ALLOWED A CREDIT AGAINST THE PREMIUM TAX INCURRED
13 PURSUANT TO SECTION 20-224, 20-837, 20-1010, 20-1060 OR 20-1097.07 IF THE
14 ARIZONA DEPARTMENT OF HOUSING ISSUES AN ELIGIBILITY STATEMENT FOR A
15 QUALIFIED PROJECT PURSUANT TO SECTION 41-3954. THE AMOUNT OF THE CREDIT:

16 1. IS EQUAL TO AT LEAST FIFTY PERCENT OF THE AMOUNT OF THE FEDERAL
17 LOW-INCOME HOUSING CREDIT FOR THE QUALIFIED PROJECT.

18 2. ON NOTICE TO THE DEPARTMENT OF INSURANCE AND FINANCIAL
19 INSTITUTIONS, MAY BE ALLOCATED AMONG THE PARTNERS, MEMBERS OR
20 SHAREHOLDERS, AS THEY MAY AGREE AMONG THEMSELVES, REGARDLESS OF THE SIZE
21 OF THE TAXPAYER'S OWNERSHIP INTEREST. THE TOTAL OF THE ALLOCATED CREDITS
22 AMONG ALL THE PARTNERS, MEMBERS OR SHAREHOLDERS MAY NOT EXCEED THE AMOUNT
23 OF THE CREDIT APPROVED BY THE ARIZONA DEPARTMENT OF HOUSING. THIS
24 PARAGRAPH DOES NOT PROHIBIT A PARTNER, MEMBER OR SHAREHOLDER FROM HOLDING
25 AN INVESTMENT EXCLUSIVELY IN EITHER THE STATE CREDITS OR FEDERAL CREDITS
26 ALLOCATED TO THE QUALIFIED PROJECT.

27 B. TO CLAIM THE CREDIT UNDER THIS SECTION, THE TAXPAYER MUST SUBMIT
28 THE ELIGIBILITY STATEMENT PROVIDED BY THE ARIZONA DEPARTMENT OF HOUSING
29 UNDER SECTION 41-3954 TO THE DEPARTMENT OF INSURANCE AND FINANCIAL
30 INSTITUTIONS WITH THE TAXPAYER'S PREMIUM TAX RETURN. A CREDIT UNDER THIS
31 SECTION IS NOT ALLOWED UNTIL THE TAXPAYER FURNISHES THE REQUIRED
32 DOCUMENTATION.

33 C. IF THE AMOUNT OF THE CREDIT UNDER THIS SECTION EXCEEDS THE
34 TAXPAYER'S STATE PREMIUM TAX LIABILITY, THE AMOUNT OF THE CLAIM NOT USED
35 TO OFFSET THE PREMIUM TAX LIABILITY MAY BE CARRIED FORWARD FOR NOT MORE
36 THAN FIVE CONSECUTIVE TAXABLE YEARS' PREMIUM TAX LIABILITY.

37 D. IF ALL OR PART OF THE FEDERAL LOW-INCOME HOUSING TAX CREDIT WITH
38 RESPECT TO THE QUALIFIED PROJECT IS SUBJECT TO RECAPTURE UNDER SECTION 42
39 OF THE INTERNAL REVENUE CODE DURING THE FIRST TEN TAXABLE YEARS AFTER THE
40 PROJECT IS PLACED IN SERVICE, THE CREDIT UNDER THIS SECTION IS ALSO
41 SUBJECT TO RECAPTURE IN A PROPORTIONAL AMOUNT FROM ALL TAXPAYERS THAT
42 CLAIMED THE CREDIT. THE RECAPTURE IS CALCULATED BY INCREASING THE AMOUNT
43 OF TAXES IMPOSED IN THE FOLLOWING YEAR BY THE AMOUNT RECAPTURED.

1 E. A TAXPAYER THAT CLAIMS A TAX CREDIT AGAINST STATE PREMIUM TAX
2 LIABILITY IS NOT REQUIRED TO PAY ANY ADDITIONAL RETALIATORY TAX IMPOSED
3 PURSUANT TO SECTION 20-230 AS A RESULT OF CLAIMING THAT TAX CREDIT. THE
4 CREDIT MAY FULLY OFFSET ANY RETALIATORY TAX IMPOSED BY SECTION 20-230.

5 F. THE DEPARTMENT OF INSURANCE AND FINANCIAL INSTITUTIONS, WITH THE
6 COOPERATION OF THE DEPARTMENT OF REVENUE AND THE ARIZONA DEPARTMENT OF
7 HOUSING, SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS AND PROCEDURES
8 AS NECESSARY TO ADMINISTER THIS SECTION.

9 Sec. 4. Delayed repeal

10 Section 20-224.04, Arizona Revised Statutes, as added by this act,
11 is repealed from and after December 31, 2025.

12 Sec. 5. Section 23-622, Arizona Revised Statutes, is amended to
13 read:

14 23-622. Wages

15 A. "Wages" means all remuneration for services from whatever
16 source, including commissions, bonuses and fringe benefits and the cash
17 value of all remuneration in any medium other than cash. The reasonable
18 cash value of remuneration in any medium other than cash shall be
19 estimated and determined in accordance with rules prescribed by the
20 department.

21 B. ~~"Wages" shall~~ DO not include:

22 1. For the purpose of sections 23-604, 23-726, ~~AND 23-728 and~~
23 ~~23-730.01~~, that part of the remuneration, ~~(other than remuneration~~
24 ~~referred to in succeeding paragraphs 3 THROUGH 16 of this subsection,)~~ in
25 excess of: ~~seven thousand dollars~~

26 (a) \$7,000 paid in 1983 or in a calendar year thereafter THROUGH
27 DECEMBER 31, 2022 to an individual by an employer or ~~his~~ THE EMPLOYER'S
28 predecessor with respect to employment during the calendar year, unless
29 that part of ~~the above specified~~ THE excess remuneration is subject to a
30 tax, under federal law, against which credit may be taken for
31 contributions required to be paid into a state unemployment fund by
32 employers subject to the federal law.

33 (b) \$8,000 PAID IN THE 2023 CALENDAR YEAR OR IN A CALENDAR YEAR
34 THEREAFTER TO AN INDIVIDUAL BY AN EMPLOYER OR THE EMPLOYER'S PREDECESSOR
35 WITH RESPECT TO EMPLOYMENT DURING THE CALENDAR YEAR, UNLESS THAT PART OF
36 THE EXCESS REMUNERATION IS SUBJECT TO A TAX, UNDER FEDERAL LAW, AGAINST
37 WHICH CREDIT MAY BE TAKEN FOR CONTRIBUTIONS REQUIRED TO BE PAID INTO A
38 STATE UNEMPLOYMENT FUND BY EMPLOYERS SUBJECT TO THE FEDERAL LAW.

39 2. For the purposes of ~~this~~ paragraph 1 OF THIS SUBSECTION, the
40 remuneration paid to an individual by an employer with respect to
41 employment in another state or states, ~~upon~~ ON which contributions were
42 required of and paid by such employer under an unemployment compensation
43 law of such other state or states, shall be included as part of
44 remuneration equal to the ~~above specified~~ amounts PRESCRIBED IN PARAGRAPH
45 1 OF THIS SUBSECTION.

1 ~~2.~~ 3. The amount of any payment, including monies paid by an
2 employer for insurance or annuities or into a fund to provide payments for
3 insurance or annuities, made to or on behalf of an employee or any of ~~his~~
4 THE EMPLOYEE'S dependents under a plan or system established by an
5 employer ~~which~~ THAT makes provision for ~~his~~ THE EMPLOYER'S employees
6 generally, for ~~his~~ THE EMPLOYER'S employees generally and their
7 dependents, for a class of ~~his~~ THE EMPLOYER'S employees or for a class of
8 ~~his~~ THE EMPLOYER'S employees and their dependents, on account of any of
9 the following:

10 (a) Sickness or accident disability, except that in the case of
11 payments made to an employee or any of ~~his~~ THE EMPLOYEE'S dependents, this
12 subdivision excludes from wages only payments ~~which~~ THAT are received
13 under a workers' compensation law.

14 (b) Medical or hospitalization expenses in connection with sickness
15 or accident disability.

16 (c) Death.

17 ~~3.~~ 4. The payment by an employer, without deduction from the
18 remuneration of the employee, of the tax imposed ~~upon~~ ON an employee under
19 section 3101 of the internal revenue code relating to federal insurance
20 contributions with respect to remuneration paid to an employee for
21 domestic service in a private home or for agricultural labor.

22 ~~4.~~ 5. Any payment on account of sickness or accident disability,
23 or medical or hospitalization expenses in connection with sickness or
24 accident disability, made by an employing unit to, or on behalf of, an
25 employee after the expiration of six calendar months following the last
26 calendar month in which the employee worked for such employing unit.

27 ~~5.~~ 6. Any payment made to, or on behalf of, an employee or ~~his~~ THE
28 EMPLOYEE'S beneficiary:

29 (a) From or to a trust described in section 401(a) of the internal
30 revenue code relating to qualified pension, profit sharing and stock bonus
31 plans ~~which~~ THAT is exempt from tax under section 501(a) of the internal
32 revenue code at the time of the payment unless the payment is made to an
33 employee of the trust as remuneration for services rendered as an employee
34 and not as a beneficiary of the trust.

35 (b) Under or to an annuity plan ~~which~~ THAT, at the time of such
36 payment, is a plan described in section 403(a) of the internal revenue
37 code relating to taxability of beneficiaries under qualified annuity
38 plans.

39 (c) Under a simplified employee pension as defined in section
40 408(k)(1) of the internal revenue code other than contributions described
41 in section 408(k)(6) of the internal revenue code relating to employee
42 salary reduction arrangements.

43 (d) Under or to an annuity contract described in section 403(b) of
44 the internal revenue code relating to taxation of beneficiaries under
45 annuities purchased by certain tax exempt organizations, other than a

1 payment for the purchase of the contract ~~which~~ THAT is made by reason of a
2 salary reduction agreement whether evidenced by a written instrument or
3 otherwise.

4 (e) Under or to an exempt governmental deferred compensation plan
5 as defined in section 3121(v)(3) of the internal revenue code.

6 (f) To supplement pension benefits under a plan or trust described
7 in this paragraph to take into account some portion or all of the increase
8 in the cost of living since retirement as determined by the United States
9 secretary of labor, but only if the supplemental payments are under a plan
10 ~~which~~ THAT is treated as a welfare plan under section 3(2)(b)(ii) of the
11 employee retirement income security act of 1974.

12 (g) Under a cafeteria plan within the meaning of section 125 of the
13 internal revenue code if such payment would not be treated as wages
14 without regard to such plan and it is reasonable to believe that, if
15 section 125 of the internal revenue code applied for purposes of this
16 section, section 125 of the internal revenue code would not treat any
17 wages as constructively received.

18 ~~6.~~ 7. Remuneration paid in any medium other than cash to an
19 employee for service not in the course of the employing unit's trade or
20 business.

21 ~~7.~~ 8. Remuneration paid for agricultural labor performed in any
22 medium other than cash.

23 ~~8.~~ 9. Any tip, gratuity or service charge received by an employee
24 except:

25 (a) Before January 1, 1986, if either of the following applies:

26 (i) It is specified and collected by the employing unit.

27 (ii) It is used by the employing unit in order to conform to the
28 minimum wage requirements of federal or state law.

29 (b) From and after December 31, 1985, if it is reported by the
30 employee in writing to the employer on or before the tenth day of the
31 month following the month in which it was received.

32 ~~9.~~ 10. Remuneration ~~which~~ THAT the individual receives for drill,
33 training or other national guard or reserve activity ~~which~~ THAT occurs on
34 not more than one weekend per month or in lieu of a weekend drill or the
35 equivalent.

36 ~~10.~~ 11. Remuneration paid to or on behalf of an employee if and to
37 the extent that at the time of the payment of the remuneration it is
38 reasonable to believe that a corresponding deduction is allowable under
39 section 217 of the internal revenue code relating to moving expenses
40 determined without regard to section 274(n) of the internal revenue code
41 relating to the disallowance of certain meal and entertainment expenses.

42 ~~11.~~ 12. Any contribution, payment or service provided by an
43 employer ~~which~~ THAT may be excluded from the gross income of any employee,
44 ~~his~~ THE EMPLOYEE'S spouse or ~~his~~ THE EMPLOYEE'S dependents under the

1 provisions of section 120 of the internal revenue code relating to amounts
2 received under qualified group legal services plans.

3 ~~12.~~ 13. Any payment made or benefit furnished to or for the
4 benefit of an employee if at the time of the payment or furnishing it is
5 reasonable to believe that the employee will be able to exclude the
6 payment or benefit from income under section 127, relating to educational
7 assistance, or section 129, relating to dependent care assistance, of the
8 internal revenue code.

9 ~~13.~~ 14. The value of any meals or lodging furnished by or on
10 behalf of the employer if at the time of the furnishing it is reasonable
11 to believe that the employee will be able to exclude these items from
12 income under section 119 of the internal revenue code.

13 ~~14.~~ 15. Any payment made by an employer to a survivor or the
14 estate of a former employee after the calendar year in which the employee
15 died.

16 ~~15.~~ 16. Any benefit provided to or on behalf of an employee if at
17 the time the benefit is provided it is reasonable to believe that the
18 employee will be able to exclude the benefit from income under section
19 74(c) relating to employee achievement awards, section 117 relating to
20 qualified scholarships or section 132 relating to certain fringe benefits
21 of the internal revenue code.

22 C. Subsection B, paragraphs ~~2~~ 3 through ~~15~~ 16 of this section do
23 not exclude from wages any of the following:

24 1. An employer contribution under a qualified cash or deferred
25 arrangement as defined in section 401(k) of the internal revenue code to
26 the extent the contribution is not included in gross income pursuant to
27 section 402(a)(8) of the internal revenue code relating to cash or
28 deferred arrangements.

29 2. An amount treated as an employer contribution under section
30 414(h)(2) of the internal revenue code, relating to tax treatment of
31 contributions by government units, if the employer picks up the
32 contribution pursuant to a written or unwritten salary reduction
33 agreement.

34 3. An amount deferred under any plan or other arrangement for
35 deferral of compensation other than a plan described in subsection B,
36 paragraph ~~5~~ 6 of this section. An amount considered as wages pursuant to
37 this paragraph shall be taxed only once and after being taxed shall not be
38 considered wages for the purposes of this chapter.

39 D. In applying ~~the provisions of~~ subsection B of this section, any
40 remuneration excluded from the definition of wages under 26 United States
41 Code section 3306(b) shall not be wages.

1 Sec. 6. Section 23-771, Arizona Revised Statutes, is amended to
2 read:

3 23-771. Eligibility for benefits

4 A. An unemployed individual is eligible to receive benefits with
5 respect to any week only if the department finds that the individual:

6 1. Has registered for work at and thereafter has continued to
7 report at an employment office in accordance with the regulations
8 prescribed by the department.

9 2. Has made a claim for benefits in accordance with section 23-772.

10 3. Is able to work.

11 4. Except for an individual who is applying for shared work
12 benefits pursuant to article 5.1 of this chapter, is available for work
13 and both of the following apply:

14 (a) The individual has engaged in a systematic and sustained effort
15 to obtain work during at least four days of the week.

16 (b) The individual has made at least one job contact per day on
17 four different days of the week.

18 5. Has been unemployed for a waiting period of one week. A week is
19 not counted as a week of unemployment for the purpose of this paragraph:

20 (a) Unless it occurs within the benefit year that includes the week
21 with respect to which the individual claims payment of benefits.

22 (b) Unless the individual was eligible for benefits with respect
23 ~~thereto~~ TO THE WEEK as provided in this section and sections 23-775,
24 23-776 and 23-777.

25 (c) If benefits have been paid in respect ~~thereto~~ TO THE WEEK.

26 6. Has met one of the following requirements:

27 (a) Has been paid wages for insured work during the individual's
28 base period equal to at least one and one-half times the wages paid to the
29 individual in the calendar quarter of the individual's base period in
30 which the wages were highest, and the individual has been paid wages for
31 insured work in one calendar quarter of the individual's base period equal
32 to an amount that is equal to at least three hundred ninety times the
33 minimum wage prescribed by section 23-363 that is in effect when the
34 individual files a claim for benefits.

35 (b) Has for a benefit year beginning on or after September 2, 1984,
36 been paid wages for insured work during at least two quarters of the
37 individual's base period and the amount of the wages paid in one quarter
38 would be sufficient to qualify the individual for the maximum weekly
39 benefit amount payable under this chapter and the total of the
40 individual's base-period wages is equal to or greater than the taxable
41 limit as specified in section 23-622, subsection B, ~~paragraph~~ PARAGRAPHS 1
42 AND 2.

43 7. Following the beginning date of a benefit year established under
44 this chapter or the unemployment compensation law of any other state and
45 before the effective date of a subsequent benefit year under this chapter,

1 has performed services whether or not in employment as defined in section
2 23-615 for which wages were payable in an amount equal to or in excess of
3 eight times the weekly benefit amount for which the individual is
4 otherwise qualified under section 23-779. In making a determination under
5 this paragraph the department shall use information available in its
6 records or require the individual to furnish necessary information within
7 thirty days after the date notice is given that the information is
8 required.

9 B. If an unemployed individual cannot establish a benefit year as
10 defined in section 23-609 due to receipt during the base period of
11 compensation for a temporary total disability pursuant to chapter 6 of
12 this title, or any similar federal law, the individual's base period shall
13 be the first four of the last five completed calendar quarters immediately
14 preceding the first day of the calendar week in which the disability
15 began. Wages previously used to establish a benefit year may not be
16 reused. This subsection does not apply unless all of the following occur:

17 1. The individual has filed a claim for benefits not later than the
18 fourth calendar week of unemployment after the end of the period of
19 disability.

20 2. The claim is filed within two years after the period of
21 disability begins.

22 3. The individual meets the requirements of subsection A of this
23 section.

24 4. The individual has attempted to return to the employment where
25 the temporary total disability occurred.

26 C. If an unemployed individual is a member of the national guard or
27 other reserve component of the United States armed forces, the individual
28 is not considered to be either employed or unavailable for work by reason
29 of the individual's participation in drill, training or other national
30 guard or reserve activity that occurs on not more than one weekend per
31 month or in lieu of a weekend drill or the equivalent.

32 D. The department shall not disqualify an individual from receiving
33 benefits under this chapter on the basis of the individual's separation
34 from employment if the individual is a victim of domestic violence and
35 leaves employment due to a documented case involving domestic violence
36 pursuant to section 13-3601 or 13-3601.02. Benefits paid to an individual
37 pursuant to this subsection shall not be charged against an employer's
38 account pursuant to section 23-727, subsection G.

39 E. For the purposes of subsection A, paragraph 6 of this section,
40 wages shall be counted as ~~“wages for insured work”~~ for benefit purposes
41 with respect to any benefit year only if that benefit year begins
42 subsequent to the date on which the employing unit by which those wages
43 were paid has become an employer subject to this chapter.

1 Sec. 7. Section 23-779, Arizona Revised Statutes, is amended to
2 read:

3 23-779. Amount of benefits

4 A. The weekly benefit amount of an individual shall be an amount
5 equal to ~~one twenty-fifth~~ 1/25 of the person's total wages for insured
6 work paid during that quarter of the person's base period in which such
7 total wages were highest, but if:

8 ~~1. From and after June 30, 1999 and before July 1, 2004, this~~
9 ~~amount is more than two hundred five dollars, the weekly benefit amount~~
10 ~~shall be two hundred five dollars.~~

11 ~~2.~~ 1. From and after June 30, 2004 AND BEFORE JULY 1, 2022, this
12 amount is more than ~~two hundred forty dollars~~ \$240, the weekly benefit
13 amount shall be ~~two hundred forty dollars~~ \$240.

14 2. FROM AND AFTER JUNE 30, 2022, THIS AMOUNT IS MORE THAN \$320, THE
15 WEEKLY BENEFIT AMOUNT SHALL BE \$320.

16 B. If the weekly benefit amount is less than the maximum weekly
17 benefit prescribed in subsection A OF THIS SECTION and is not a multiple
18 of ~~one dollar~~ \$1, the amount shall be rounded to the nearest dollar, with
19 an even one-half dollar being rounded to the next higher multiple of ~~one~~
20 ~~dollar~~ \$1. An individual's benefit amount shall not be redetermined
21 during the person's benefit year because of a new maximum or minimum
22 weekly benefit amount becoming effective during the person's benefit year.

23 C. Each eligible individual WHO IS unemployed with respect to any
24 week shall be paid with respect to that week a benefit in an amount equal
25 to the ~~person's~~ INDIVIDUAL'S weekly benefit amount less that part of the
26 wages, if any, payable to the ~~person~~ INDIVIDUAL with respect to that week
27 ~~which~~ THAT is in excess of ~~thirty dollars~~ \$160. The benefit, if not a
28 multiple of ~~one dollar~~ \$1, shall be rounded to the nearest dollar, with an
29 even one-half dollar being rounded to the next higher multiple of ~~one~~
30 ~~dollar~~ \$1.

31 Sec. 8. Section 23-780, Arizona Revised Statutes, is amended to
32 read:

33 23-780. Duration and amount of benefits; definition

34 A. An otherwise eligible individual ~~shall be~~ IS entitled during a
35 benefit year to a total amount of benefits equal to:

36 1. Twenty-six times ~~his~~ THE INDIVIDUAL'S weekly benefit amount, ~~but~~
37 ~~shall~~ IF THE UNEMPLOYMENT RATE IN THE PRIOR CALENDAR QUARTER IS FIVE
38 PERCENT OR MORE.

39 2. TWENTY-FOUR TIMES THE INDIVIDUAL'S WEEKLY BENEFIT AMOUNT IF THE
40 UNEMPLOYMENT RATE IN THE PRIOR CALENDAR QUARTER IS LESS THAN FIVE PERCENT.

41 B. NOTWITHSTANDING SUBSECTION A OF THIS SECTION, AN INDIVIDUAL MAY
42 not receive more than ~~one-third~~ ONE-THIRD of ~~his~~ THE INDIVIDUAL'S base
43 period earnings in ~~such~~ A benefit year.

1 C. FOR THE PURPOSES OF THIS SECTION, "UNEMPLOYMENT RATE IN THE
2 PRIOR CALENDAR QUARTER" MEANS THE AVERAGE OF THE SEASONALLY ADJUSTED
3 UNEMPLOYMENT RATES FOR THE THREE MONTHS OF THE MOST RECENTLY PUBLISHED
4 CALENDAR YEAR QUARTER AS PUBLISHED BY THE OFFICE OF ECONOMIC OPPORTUNITY.

5 Sec. 9. Title 23, chapter 4, article 7, Arizona Revised Statutes,
6 is amended by adding section 23-799.01, to read:

7 23-799.01. Fraud prevention; report

8 A. TO ENSURE PROGRAM INTEGRITY, THE DEPARTMENT SHALL:

9 1. OBTAIN CURRENT AND ACTUAL EMPLOYMENT AND EARNED INCOME
10 INFORMATION IN REAL TIME VIA VERIFICATION SERVICES FROM EXTERNAL DATA
11 SOURCES, INCLUDING THIRD-PARTY VENDORS, AS PART OF THE DEPARTMENT'S
12 EMPLOYMENT AND EARNED INCOME VERIFICATION PROCESS TO ACCURATELY DETERMINE
13 AN INDIVIDUAL'S ELIGIBILITY FOR UNEMPLOYMENT BENEFITS.

14 2. VERIFY THE IDENTITY OF AN INDIVIDUAL BY INCORPORATING AN
15 IDENTITY VERIFICATION PROCESS THAT MAY INCLUDE DIGITAL OR PHYSICAL
16 IDENTITY AUTHENTICATION FACTORS, OR BOTH, USING EXTERNAL DATA SOURCES,
17 INCLUDING THIRD-PARTY VENDORS.

18 3. MINIMIZE ERRONEOUS COMMUNICATIONS TO EMPLOYERS GENERATED FROM
19 FRAUDULENT CLAIM APPLICATIONS.

20 B. ON OR BEFORE DECEMBER 31 OF EACH YEAR, THE DEPARTMENT SHALL
21 SUBMIT TO THE GOVERNOR, THE PRESIDENT OF THE SENATE AND THE SPEAKER OF THE
22 HOUSE OF REPRESENTATIVES, AND SHALL PROVIDE A COPY TO THE SECRETARY OF
23 STATE, A REPORT THAT CONTAINS DETAILS ON UNEMPLOYMENT INSURANCE FRAUD FOR
24 THE PREVIOUS FISCAL YEAR, INCLUDING ALL OF THE FOLLOWING:

25 1. THE NUMBER OF FRAUDULENT CLAIMS.

26 2. THE TOTAL AMOUNT OF MONIES PAID IN FRAUDULENT CLAIMS.

27 3. THE IMPACT OF FRAUD ON EMPLOYER CONTRIBUTION RATES AND
28 EXPERIENCE RATINGS.

29 Sec. 10. Section 41-1518, Arizona Revised Statutes, is amended to
30 read:

31 41-1518. Capital investment incentives; evaluation;
32 certification; definitions

33 A. The Arizona commerce authority shall receive and evaluate
34 applications that are submitted by qualified investors to receive a tax
35 credit pursuant to section 43-1074.02 for qualified investments made in a
36 qualified small business and shall certify to the department of revenue
37 the names, amounts and other relevant information relating to the
38 applicants.

39 B. To be eligible for a tax credit pursuant to this section and
40 section 43-1074.02, a qualified investor shall file an application with
41 the authority within ninety days after making a qualified investment. The
42 application, on a form prescribed by the authority, shall include:

43 1. The name, address and federal income tax identification number
44 of the applicant.

1 2. The name and federal employer identification number of the
2 qualified small business that received a qualified investment made by the
3 applicant.

4 3. The date the qualified investment was made.

5 4. Any additional information that the authority requires.

6 C. As part of the application, the applicant and the qualified
7 small business that receives the investment shall each provide written
8 authorization pursuant to section 42-2003 designating the authority as
9 eligible to receive tax information from the department of revenue for the
10 purpose of determining if any misrepresentations exist on the application.
11 The authorization shall limit disclosure to income tax information for the
12 latest two years for which returns were filed with the department of
13 revenue preceding the date the application is filed and for all tax years
14 through the year in which the investment was made for which a return was
15 not filed as of the date of the application. The applicant shall also
16 provide in the written authorization income tax information for all tax
17 years in which the applicant could claim or carry forward the credit
18 pursuant to this section, but limited to the tax years in which the
19 applicant actually claims a credit or carries forward a credit on a return
20 filed with the department of revenue. An applicant who has an individual
21 ownership interest as a co-owner of a business who may be entitled to a
22 pro rata share of the credit pursuant to section 43-1074.02, subsection E
23 shall provide a written authorization with content similar to the
24 authorization, and in the same manner as, any other applicant is required
25 to provide.

26 D. The authority shall review and make a determination with respect
27 to each application within ninety days after receiving the
28 application. The authority may request additional information from the
29 applicant in order to make an informed decision regarding the eligibility
30 of the qualified investor or qualified small business.

31 E. Subject to subsection F of this section, the authority shall
32 authorize tax credits for each qualified investor who makes a qualified
33 investment in a qualified small business. The amount of the credit shall
34 be:

35 1. If the qualified investment is made in a qualified small
36 business that maintains its principal place of business in a rural county
37 of this state or is a bioscience enterprise, twelve percent of the amount
38 of the investment per year for the first and second taxable years after
39 the investment is made and eleven percent of the amount of the investment
40 for the third taxable year after the year in which the investment is made.

41 2. If the qualified investment is made in a qualified small
42 business other than a business described in paragraph 1 of this
43 subsection, ten percent of the amount of the investment for each of the
44 three taxable years after the year in which the investment is made.

1 F. The authority shall not authorize tax credits under this section
2 after June 30, ~~2021~~ 2031. Through June 30, 2017, the authority shall not
3 certify tax credits under this section exceeding ~~twenty million~~
4 ~~dollars~~ \$20,000,000. From and after June 30, 2017 through June 30, 2021,
5 the authority may certify additional tax credits under this section not
6 exceeding ~~two million five hundred thousand dollars~~ \$2,500,000 each fiscal
7 year, plus any unused credit capacity, ~~which~~ THAT carries over from the
8 preceding fiscal year or years. FROM AND AFTER JUNE 30, 2021 THROUGH JUNE
9 30, 2031, THE AUTHORITY MAY CERTIFY ADDITIONAL TAX CREDITS UNDER THIS
10 SECTION NOT EXCEEDING \$2,500,000 EACH FISCAL YEAR, PLUS ANY UNUSED CREDIT
11 CAPACITY THAT CARRIES OVER FROM THE PRECEDING FISCAL YEAR OR YEARS. Tax
12 credits that expire after certification or that are otherwise not timely
13 used by the qualified investor for whom they were originally authorized
14 shall also be included in the applicable dollar limit. If qualifying
15 applications exceed the dollar limit, the authority shall authorize
16 credits in the order of the date and time that the applications are
17 received by the authority, as evidenced by the time and date stamped on
18 the application when received by the authority. All applications shall be
19 filed on a form and in the manner prescribed by the ~~Arizona commerce~~
20 authority. If an application is received that, if authorized, would
21 require the authority to exceed the applicable dollar limit, the authority
22 shall only grant the applicant the remaining amount of tax credits that
23 would not exceed the dollar limit. After the authority authorizes the
24 allowable amount of tax credits, the authority shall deny any subsequent
25 applications that are received. The authority shall certify to the
26 qualified investor and to the department of revenue the amount of the tax
27 credit that is authorized for THE purposes of section 43-1074.02 for each
28 taxable year described in subsection E of this section.

29 G. The total of all qualified investments in any calendar year by a
30 qualified investor and its affiliates in qualified small businesses that
31 are eligible for a tax credit pursuant to this section and section
32 43-1074.02 shall not exceed ~~five hundred thousand dollars~~ \$500,000. The
33 maximum amount of qualified investments in a single qualified small
34 business for which the authority may authorize tax credits under this
35 section shall not exceed an aggregate of ~~two million dollars~~ \$2,000,000 in
36 investments for all taxable years. If applications for tax credits are
37 received for investments that exceed the limits prescribed by this
38 subsection for any qualified small business, the authority shall authorize
39 credits in the order of the date and time that the applications are
40 received by the authority. If an application is received that, if
41 authorized, would require the authority to authorize tax credits for any
42 investment in a qualified small business that would cause the total
43 qualified investments in the business to exceed the limits prescribed by
44 this subsection, the authority shall only grant the applicant the

1 remaining amount of tax credits that would not exceed the limits
2 prescribed by this subsection.

3 H. The qualified investor shall file a return claiming the tax
4 credit with the department of revenue for application against income tax
5 pursuant to section 43-1074.02 by the due date of the return, including
6 extensions, for the tax year in which the credit is available. If the
7 qualified investor fails to timely file a return claiming the credit for a
8 taxable year, the credit expires for that taxable year and there shall be
9 no carryforward of the expired credit. If a qualified investor includes
10 co-owners of a business who qualify for individual pro rata shares of the
11 credit pursuant to section 43-1074.02, subsection E, each individual owner
12 shall file a return claiming the tax credit with the department of revenue
13 by the due date of the return, including extensions, for the tax year in
14 which the credit is available. If an individual co-owner fails to timely
15 file a return claiming the credit for a taxable year, the credit expires
16 for that taxable year and there shall be no carryforward of the expired
17 credit. Credits that expire or that otherwise are not timely used by the
18 qualified investor or by the individual co-owner of a business for whom
19 the credits were originally authorized shall not be reissued.

20 I. On receiving an application for a tax credit from a qualified
21 investor, or a written request for certification as a qualified small
22 business from a corporation, limited liability company, partnership or
23 other business entity, the authority shall determine whether the
24 corporation, limited liability company, partnership or other business
25 entity that is named in the application or written request is a qualified
26 small business. The authority shall determine if the business is a
27 bioscience enterprise and if the business maintains its principal place of
28 business in a rural county in this state. After determining the
29 qualifications, the authority shall certify the qualified small business
30 as being eligible to receive qualified investments for purposes of this
31 section. The certification is valid for one year, but the authority may
32 revoke the certification at any time or refuse to renew the certification
33 if the business fails to maintain the required qualifications. If a
34 qualified small business fails to maintain the qualifications, the
35 business shall notify the authority within five business days after
36 failing to meet the qualifications. The authority shall revoke the
37 certification of the business and may assess a penalty against the
38 business entity equal to the amount of the tax credits authorized after
39 the business failed to meet the qualifications. The penalty shall be
40 deposited ~~into~~ IN the state general fund. If the certification is revoked
41 or expires, subsequent investments in the business do not qualify for a
42 tax credit pursuant to this section and section 43-1074.02. All tax
43 credits that are issued before any expiration or revocation of the
44 certification shall remain valid. Any application for a tax credit shall
45 not be denied on the basis of the expiration or revocation of the

1 certification if the investment was made before the date of the expiration
2 or revocation.

3 J. The authority shall provide to the department of revenue
4 necessary information required to administer this section and section
5 43-1074.02. If the authority subsequently discovers that an applicant who
6 received a tax credit misrepresented information on the application, the
7 authority shall immediately notify the department of revenue and provide
8 the department of revenue all information that relates to that
9 applicant. If the department of revenue determines that there has been a
10 misrepresentation on the application, the department of revenue shall deny
11 the credit if the misrepresentation relates to whether the applicant was a
12 qualified investor or made a qualified investment. If the
13 misrepresentation relates to whether the investment was made to:

14 1. A qualified small business, the department of revenue shall deny
15 the credit only if the applicant knew or should have known at any time
16 before the certification that the representation was false.

17 2. A bioscience enterprise or a business that maintains its
18 principal place of business in a rural county in this state, the
19 department of revenue shall decrease the amount of the credit that would
20 have been allowed under subsection E, paragraph 1 of this section to the
21 amount allowed under subsection E, paragraph 2 of this section only if the
22 applicant knew or should have known at any time before the certification
23 that the representation was false.

24 K. For the purposes of this section:

25 1. "Affiliate" means any person or entity that controls, that is
26 controlled by or that is under common control with another person or
27 entity. For the purposes of this paragraph, "control" means the power to
28 determine the policies of an entity whether through ownership of voting
29 securities, by contract or otherwise.

30 2. "Asset" means any owned property that has value, including
31 financial assets and physical assets. Intellectual property shall not be
32 included when determining total assets.

33 3. "Bioscience enterprise" means a business whose activity is
34 related to bioscience as determined by the authority or any corporation,
35 partnership, limited liability company or other business entity that is
36 primarily engaged in a business that conducts research, development,
37 manufacturing, marketing, sales and licensing of products, services and
38 solutions relating to either of the following:

39 (a) Medical, pharmaceutical, nutraceutical, bioengineering,
40 biomechanical, bioinformatics or other life-science based applications.

41 (b) Applications of modern biological, bioengineering,
42 biomechanical or bioinformatics technologies in the fields of human, plant
43 or animal health, agriculture, defense, homeland security or the
44 environment.

1 4. "Qualified investment" means an investment in an equity security
2 that meets all of the following requirements:

3 (a) The equity security shall be common stock, preferred stock, an
4 interest in a partnership or limited liability company, a security that is
5 convertible into an equity security or any other equity security as
6 determined by the authority.

7 (b) The investment shall be at least ~~twenty-five thousand dollars~~
8 \$25,000.

9 (c) The qualified investor and its affiliates do not hold, of
10 record or beneficially, immediately before making an investment, equity
11 securities possessing more than thirty percent of the total voting power
12 of all equity securities of the qualified small business.

13 5. "Qualified investor" means an individual, limited liability
14 company, partnership, S corporation as defined in section 1361 of the
15 internal revenue code or other business entity that makes a qualified
16 investment in a qualified small business. Qualified investor does not
17 mean a corporation that is subject to tax under title 43, chapter 11.

18 6. "Qualified small business" means a corporation, limited
19 liability company, partnership or other business entity that:

20 (a) Maintains at least a portion of its operations at an office or
21 manufacturing or research facility located in this state.

22 (b) Has at least two principal full-time equivalent employees who
23 are residents in this state. For the purposes of this subdivision,
24 "principal" means a person whose sole responsibility is not
25 administrative.

26 (c) Does not engage in any activities that involve human cloning or
27 embryonic stem cell research.

28 (d) Has total assets not exceeding ~~two million dollars~~ \$2,000,000
29 through December 31, 2011 or ~~ten million dollars~~ \$10,000,000 beginning
30 from and after December 31, 2011, excluding any investment made under this
31 section.

32 (e) Has not exceeded the limit on qualified investments prescribed
33 by subsection G of this section.

34 (f) Does not have a principal business involving activities
35 excluded by the authority. The authority shall provide a list of excluded
36 businesses to any person on request.

37 7. "Rural county" means a county that has a population of seven
38 hundred fifty thousand or fewer persons.

39 Sec. 11. Title 41, chapter 37, article 2, Arizona Revised Statutes,
40 is amended by adding section 41-3954, to read:

41 41-3954. Affordable housing tax credit; limit; eligibility
42 statement; rules; public hearings; annual report;
43 definitions

44 A. THE AFFORDABLE HOUSING TAX CREDIT IS ESTABLISHED. THE
45 DEPARTMENT SHALL ADMINISTER THE CREDIT AS PROVIDED BY THIS SECTION.

1 B. ON APPLICATION, THE DEPARTMENT SHALL ALLOCATE TAX CREDITS UNDER
2 THIS SECTION FOR PROJECTS IN THIS STATE THAT QUALIFY FOR THE FEDERAL
3 LOW-INCOME HOUSING TAX CREDIT UNDER SECTION 42 OF THE INTERNAL REVENUE
4 CODE AND THAT ARE PLACED IN SERVICE, FOR PURPOSES OF THE FEDERAL CREDIT,
5 FROM AND AFTER JUNE 30, 2022, IN AN AMOUNT EQUAL TO AT LEAST FIFTY PERCENT
6 OF THE AMOUNT OF THE FEDERAL CREDIT ALLOWED IN EACH TAXABLE YEAR DURING
7 THE FEDERAL CREDIT PERIOD. THE DEPARTMENT SHALL ALLOCATE TAX CREDITS
8 UNDER THIS SECTION ACCORDING TO THE DEPARTMENT'S CURRENT QUALIFIED
9 ALLOCATION PLAN ADOPTED PURSUANT TO SECTION 42(m) OF THE INTERNAL REVENUE
10 CODE.

11 C. THE DEPARTMENT SHALL PRESCRIBE FORMS, PROCEDURES AND CRITERIA
12 FOR APPLYING, EVALUATING AND QUALIFYING FOR THE CREDIT UNDER THIS SECTION.
13 THE DEPARTMENT SHALL ISSUE AN ELIGIBILITY STATEMENT FOR EACH QUALIFIED
14 PROJECT THAT IDENTIFIES THE QUALIFIED PROJECT, THE ALLOCATION YEAR AND THE
15 AMOUNT OF THE CREDITS ALLOCATED TO THE PROJECT.

16 D. THE DEPARTMENT SHALL ALLOCATE A TOTAL OF \$4,000,000 OF TAX
17 CREDITS UNDER THIS SECTION IN ANY CALENDAR YEAR ACCORDING TO THE DATE OF
18 THE ALLOCATION OF THE CREDIT. AN APPROVED AMOUNT APPLIES AGAINST THE
19 DOLLAR LIMIT FOR THE YEAR IN WHICH THE APPLICATION IS SUBMITTED. IF, AT
20 THE END THE CALENDAR YEAR, AN UNUSED BALANCE OCCURS UNDER THE DOLLAR LIMIT
21 PRESCRIBED BY THIS SUBSECTION, THE BALANCE SHALL BE REALLOCATED FOR THE
22 PURPOSES OF THIS SUBSECTION IN THE FOLLOWING YEAR.

23 E. ANY TAXPAYER THAT OWNS AN INTEREST IN AN INVESTMENT IN A
24 QUALIFIED PROJECT THAT RECEIVES AN ELIGIBILITY STATEMENT FROM THE
25 DEPARTMENT IS ALLOWED A TAX CREDIT UNDER THIS SECTION FOR TAXABLE YEARS
26 BEGINNING FROM AND AFTER DECEMBER 31, 2021 IF THE TAXPAYER ACQUIRES THE
27 INTEREST BEFORE FILING A TAX RETURN CLAIMING THE TAX CREDIT. THE TAXPAYER
28 SHALL APPLY THE CREDIT AGAINST THE TAXPAYER'S INSURANCE PREMIUM OR INCOME
29 TAX LIABILITY AS PROVIDED BY AND SUBJECT TO THE PROCEDURES, TERMS AND
30 CONDITIONS PRESCRIBED BY SECTION 20-224.04, 43-1075 OR 43-1163, AS
31 APPLICABLE.

32 F. A QUALIFIED PROJECT THAT IS APPROVED FOR THE PURPOSES OF THE
33 CREDIT UNDER THIS SECTION IS NOT ELIGIBLE FOR ANY ABATEMENT, EXEMPTION OR
34 OTHER REDUCTION IN STATE OR LOCAL AD VALOREM PROPERTY TAXES OTHERWISE
35 ALLOWED BY STATUTE.

36 G. THE ARIZONA DEPARTMENT OF HOUSING, WITH THE COOPERATION OF THE
37 DEPARTMENT OF INSURANCE AND FINANCIAL INSTITUTIONS AND THE DEPARTMENT OF
38 REVENUE, SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS AND PROCEDURES
39 AS NECESSARY TO ADMINISTER THIS SECTION, INCLUDING CRITERIA ON WHICH
40 ELIGIBILITY STATEMENTS ARE ISSUED UNDER THIS SECTION.

41 H. ON OR BEFORE JULY 30 OF EACH YEAR, THE DEPARTMENT SHALL HOLD A
42 PUBLIC HEARING TO SOLICIT AND ACCEPT PUBLIC COMMENTS RELATING TO THE
43 AMOUNT OF THE CREDIT UNDER THIS SECTION TO BE USED FOR QUALIFIED PROJECTS
44 THAT ARE FINANCED THROUGH TAX-EXEMPT BOND ISSUANCE AS PART OF THE
45 QUALIFIED ALLOCATION PLAN PROCESS AND OTHER AFFORDABLE HOUSING TAX CREDIT

1 ISSUES. THE DEPARTMENT SHALL POST A COPY OF ALL COMMENTS SUBMITTED DURING
2 EACH PUBLIC HEARING ON THE DEPARTMENT'S WEBSITE BEFORE SEPTEMBER 15 OF THE
3 YEAR IN WHICH THE PUBLIC HEARING IS HELD.

4 I. ON OR BEFORE DECEMBER 31 OF EACH YEAR, THE DEPARTMENT SHALL
5 SUBMIT TO THE PRESIDENT OF THE SENATE AND THE SPEAKER OF THE HOUSE OF
6 REPRESENTATIVES A REPORT THAT ADDRESSES WHETHER THE CREDITS APPROVED UNDER
7 THIS SECTION PRODUCED A SIGNIFICANT NUMBER OF ADDITIONAL AFFORDABLE
8 HOUSING UNITS IN THIS STATE AND THAT ANALYZES THE ECONOMIC IMPACT OF THE
9 CREDITS APPROVED UNDER THIS SECTION ON THIS STATE. THE DEPARTMENT SHALL
10 PROVIDE A COPY OF THIS REPORT TO THE SECRETARY OF STATE.

11 J. FOR THE PURPOSES OF THIS SECTION:

12 1. "INTERNAL REVENUE CODE" HAS THE SAME MEANING PRESCRIBED BY
13 SECTION 43-105.

14 2. "QUALIFIED PROJECT" MEANS A QUALIFIED LOW-INCOME BUILDING AS
15 DEFINED IN SECTION 42(c)(2) OF THE INTERNAL REVENUE CODE.

16 3. "TAXPAYER" MEANS A PERSON, FIRM OR CORPORATION THAT IS SUBJECT
17 TO TAXATION UNDER TITLE 20 OR UNDER TITLE 43, CHAPTER 10 OR 11.

18 Sec. 12. Delayed repeal

19 Section 41-3954, Arizona Revised Statutes, as added by this act, is
20 repealed from and after December 31, 2025.

21 Sec. 13. Section 42-5061, Arizona Revised Statutes, as amended by
22 Laws 2019, chapter 273, section 7 and chapter 288, section 1, is amended
23 to read:

24 42-5061. Retail classification; definitions

25 A. The retail classification is comprised of the business of
26 selling tangible personal property at retail. The tax base for the retail
27 classification is the gross proceeds of sales or gross income derived from
28 the business. The tax imposed on the retail classification does not apply
29 to the gross proceeds of sales or gross income from:

30 1. Professional or personal service occupations or businesses that
31 involve sales or transfers of tangible personal property only as
32 inconsequential elements.

33 2. Services rendered in addition to selling tangible personal
34 property at retail.

35 3. Sales of warranty or service contracts. The storage, use or
36 consumption of tangible personal property provided under the conditions of
37 such contracts is subject to tax under section 42-5156.

38 4. Sales of tangible personal property by any nonprofit
39 organization organized and operated exclusively for charitable purposes
40 and recognized by the United States internal revenue service under section
41 501(c)(3) of the internal revenue code.

42 5. Sales to persons engaged in business classified under the
43 restaurant classification of articles used by human beings for food, drink
44 or condiment, whether simple, mixed or compounded.

1 6. Business activity that is properly included in any other
2 business classification that is taxable under this article.

3 7. The sale of stocks and bonds.

4 8. Drugs and medical oxygen, including delivery hose, mask or tent,
5 regulator and tank, on the prescription of a member of the medical, dental
6 or veterinarian profession who is licensed by law to administer such
7 substances.

8 9. Prosthetic appliances as defined in section 23-501 and as
9 prescribed or recommended by a health professional who is licensed
10 pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.

11 10. Insulin, insulin syringes and glucose test strips.

12 11. Prescription eyeglasses or contact lenses.

13 12. Hearing aids as defined in section 36-1901.

14 13. Durable medical equipment that has a centers for medicare and
15 medicaid services common procedure code, is designated reimbursable by
16 medicare, is prescribed by a person who is licensed under title 32,
17 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is
18 primarily and customarily used to serve a medical purpose, is generally
19 not useful to a person in the absence of illness or injury and is
20 appropriate for use in the home.

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

24 15. Food, as provided in and subject to the conditions of article 3
25 of this chapter and sections 42-5074 and 42-6017.

26 16. Items purchased with United States department of agriculture
27 coupons issued under the supplemental nutrition assistance program
28 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
29 7 United States Code sections 2011 through 2036b) by the United States
30 department of agriculture food and nutrition service or food instruments
31 issued under section 17 of the child nutrition act (P.L. 95-627;
32 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States
33 Code section 1786).

34 17. Textbooks by any bookstore that are required by any state
35 university or community college.

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

40 19. Articles of food, drink or condiment and accessory tangible
41 personal property to a school district or charter school if such articles
42 and accessory tangible personal property are to be prepared and served to
43 persons for consumption on the premises of a public school within the
44 district or on the premises of the charter school during school hours.

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

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

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

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

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

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

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

32 22. Motor vehicle fuel and use fuel that are subject to a tax
33 imposed under title 28, chapter 16, article 1, sales of use fuel to a
34 holder of a valid single trip use fuel tax permit issued under section
35 28-5739, sales of aviation fuel that are subject to the tax imposed under
36 section 28-8344 and sales of jet fuel that are subject to the tax imposed
37 under article 8 of this chapter.

38 23. Tangible personal property sold to a person engaged in the
39 business of leasing or renting such property under the personal property
40 rental classification if such property is to be leased or rented by such
41 person.

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

1 25. Tangible personal property sold to:

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

3 (b) A qualifying health care organization as defined in section
4 42-5001 if the tangible personal property is used by the organization
5 solely to provide health and medical related educational and charitable
6 services.

7 (c) A qualifying health care organization as defined in section
8 42-5001 if the organization is dedicated to providing educational,
9 therapeutic, rehabilitative and family medical education training for
10 blind and visually impaired children and children with multiple
11 disabilities from the time of birth to age twenty-one.

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

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

17 (f) For taxable periods beginning from and after June 30, 2001, a
18 nonprofit charitable organization that has qualified under section
19 501(c)(3) of the internal revenue code and that provides residential
20 apartment housing for low income persons over sixty-two years of age in a
21 facility that qualifies for a federal housing subsidy, if the tangible
22 personal property is used by the organization solely to provide
23 residential apartment housing for low income persons over sixty-two years
24 of age in a facility that qualifies for a federal housing subsidy.

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

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

31 26. Magazines or other periodicals or other publications by this
32 state to encourage tourist travel.

33 27. Tangible personal property sold to:

34 (a) A person that is subject to tax under this article by reason of
35 being engaged in business classified under section 42-5075 or to a
36 subcontractor working under the control of a person engaged in business
37 classified under section 42-5075, if the property so sold is any of the
38 following:

39 (i) Incorporated or fabricated by the person into any real
40 property, structure, project, development or improvement as part of the
41 business.

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

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

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

6 28. The sale of a motor vehicle to:

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

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

14 29. Tangible personal property purchased in this state by a
15 nonprofit charitable organization that has qualified under section
16 501(c)(3) of the United States internal revenue code and that engages in
17 and uses such property exclusively in programs for persons with mental or
18 physical disabilities if the programs are exclusively for training, job
19 placement, rehabilitation or testing.

20 30. Sales of tangible personal property by a nonprofit organization
21 that is exempt from taxation under section 501(c)(3), 501(c)(4) or
22 501(c)(6) of the internal revenue code if the organization is associated
23 with a major league baseball team or a national touring professional
24 golfing association and no part of the organization's net earnings inures
25 to the benefit of any private shareholder or individual. This paragraph
26 does not apply to an organization that is owned, managed or controlled, in
27 whole or in part, by a major league baseball team, or its owners,
28 officers, employees or agents, or by a major league baseball association
29 or professional golfing association, or its owners, officers, employees or
30 agents, unless the organization conducted or operated exhibition events in
31 this state before January 1, 2018 that were exempt from taxation under
32 section 42-5073.

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

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

44 33. Sales of propagative materials to persons who use those items
45 to commercially produce agricultural, horticultural, viticultural or

1 floricultural crops in this state. For the purposes of this paragraph,
2 "propagative materials":

3 (a) Includes seeds, seedlings, roots, bulbs, liners, transplants,
4 cuttings, soil and plant additives, agricultural minerals, auxiliary soil
5 and plant substances, micronutrients, fertilizers, insecticides,
6 herbicides, fungicides, soil fumigants, desiccants, rodenticides,
7 adjuvants, plant nutrients and plant growth regulators.

8 (b) Except for use in commercially producing industrial hemp as
9 defined in section 3-311, does not include any propagative materials used
10 in producing any part, including seeds, of any plant of the genus
11 cannabis.

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

17 35. Sales of natural gas or liquefied petroleum gas used to propel
18 a motor vehicle.

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

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

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

1 39. Through December 31, 1994, personal property liquidation
2 transactions, conducted by a personal property liquidator. From and after
3 December 31, 1994, personal property liquidation transactions shall be
4 taxable under this section provided that nothing in this subsection shall
5 be construed to authorize the taxation of casual activities or
6 transactions under this chapter. For the purposes of this paragraph:

7 (a) "Personal property liquidation transaction" means a sale of
8 personal property made by a personal property liquidator acting solely on
9 behalf of the owner of the personal property sold at the dwelling of the
10 owner or on the death of any owner, on behalf of the surviving spouse, if
11 any, any devisee or heir or the personal representative of the estate of
12 the deceased, if one has been appointed.

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

15 40. Sales of food, drink and condiment for consumption within the
16 premises of any prison, jail or other institution under the jurisdiction
17 of the state department of corrections, the department of public safety,
18 the department of juvenile corrections or a county sheriff.

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

24 42. Sales of:

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

27 (b) Livestock and poultry feed, salts, vitamins and other additives
28 for livestock or poultry consumption that are sold to persons for use or
29 consumption by their own livestock or poultry, for use or consumption in
30 the businesses of farming, ranching and producing or feeding livestock,
31 poultry, or livestock or poultry products or for use or consumption in
32 noncommercial boarding of livestock. For the purposes of this paragraph,
33 "poultry" includes ratites.

34 43. Sales of implants used as growth promotants and injectable
35 medicines, not already exempt under paragraph 8 of this subsection, for
36 livestock or poultry owned by or in possession of persons who are engaged
37 in producing livestock, poultry, or livestock or poultry products or who
38 are engaged in feeding livestock or poultry commercially. For the
39 purposes of this paragraph, "poultry" includes ratites.

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

44 45. Tangible personal property sold to a person engaged in business
45 and subject to tax under the transient lodging classification if the

1 tangible personal property is a personal hygiene item or articles used by
2 human beings for food, drink or condiment, except alcoholic beverages,
3 that are furnished without additional charge to and intended to be
4 consumed by the transient during the transient's occupancy.

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

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

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

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

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

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

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

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

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

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

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

1 (b) "Curriculum design or enhancement" means planning, implementing
2 or reporting on courses of study, lessons, assignments or other learning
3 activities.

4 54. Sales of motor vehicle fuel and use fuel to a qualified
5 business under section 41-1516 for off-road use in harvesting, processing
6 or transporting qualifying forest products removed from qualifying
7 projects as defined in section 41-1516.

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

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

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

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

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

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

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

44 (c) "Indian tribe" means any organized nation, tribe, band or
45 community that is recognized as an Indian tribe by the United States

1 department of the interior and includes any entity formed under the laws
2 of the Indian tribe.

3 60. Sales of works of fine art, as defined in section 44-1771, at
4 an art auction or gallery in this state to nonresidents of this state for
5 use outside this state if the vendor ships or delivers the work of fine
6 art to a destination outside this state.

7 61. Sales of tangible personal property by a marketplace seller
8 that are facilitated by a marketplace facilitator in which the marketplace
9 facilitator has remitted or will remit the applicable tax to the
10 department pursuant to section 42-5014.

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

15 1. Machinery, or equipment, used directly in manufacturing,
16 processing, fabricating, job printing, refining or metallurgical
17 operations. The terms "manufacturing", "processing", "fabricating", "job
18 printing", "refining" and "metallurgical" as used in this paragraph refer
19 to and include those operations commonly understood within their ordinary
20 meaning. "Metallurgical operations" includes leaching, milling,
21 precipitating, smelting and refining.

22 2. Mining machinery, or equipment, used directly in the process of
23 extracting ores or minerals from the earth for commercial purposes,
24 including equipment required to prepare the materials for extraction and
25 handling, loading or transporting such extracted material to the surface.
26 "Mining" includes underground, surface and open pit operations for
27 extracting ores and minerals.

28 3. Tangible personal property sold to persons engaged in business
29 classified under the telecommunications classification, including a person
30 representing or working on behalf of such a person in a manner described
31 in section 42-5075, subsection 0, and consisting of central office
32 switching equipment, switchboards, private branch exchange equipment,
33 microwave radio equipment and carrier equipment including optical fiber,
34 coaxial cable and other transmission media that are components of carrier
35 systems.

36 4. Machinery, equipment or transmission lines used directly in
37 producing or transmitting electrical power, but not including
38 distribution. Transformers and control equipment used at transmission
39 substation sites constitute equipment used in producing or transmitting
40 electrical power.

41 5. Neat animals, horses, asses, sheep, ratites, swine or goats used
42 or to be used as breeding or production stock, including sales of
43 breedings or ownership shares in such animals used for breeding or
44 production.

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

5 7. Aircraft, navigational and communication instruments and other
6 accessories and related equipment sold to:

7 (a) A person:

8 (i) Holding, or exempted by federal law from obtaining, a federal
9 certificate of public convenience and necessity for use as, in conjunction
10 with or becoming part of an aircraft to be used to transport persons for
11 hire in intrastate, interstate or foreign commerce.

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

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

21 (iv) Operating an aircraft to transport persons in any manner for
22 compensation or hire, or for use in a fractional ownership program that
23 meets the requirements of federal aviation administration regulations (14
24 Code of Federal Regulations part 91, subpart K), including as an air
25 carrier, a foreign air carrier or a commercial operator or under a
26 restricted category, within the meaning of 14 Code of Federal Regulations,
27 regardless of whether the operation or aircraft is regulated or certified
28 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
29 of Federal Regulations.

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

35 (b) Any foreign government.

36 (c) Persons who are not residents of this state and who will not
37 use such property in this state other than in removing such property from
38 this state. This subdivision also applies to corporations that are not
39 incorporated in this state, regardless of maintaining a place of business
40 in this state, if the principal corporate office is located outside this
41 state and the property will not be used in this state other than in
42 removing the property from this state.

43 8. Machinery, tools, equipment and related supplies used or
44 consumed directly in repairing, remodeling or maintaining aircraft,

1 aircraft engines or aircraft component parts by or on behalf of a
2 certificated or licensed carrier of persons or property.

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

5 10. Machinery or equipment used directly to drill for oil or gas or
6 used directly in the process of extracting oil or gas from the earth for
7 commercial purposes.

8 11. Buses or other urban mass transit vehicles that are used
9 directly to transport persons or property for hire or pursuant to a
10 governmentally adopted and controlled urban mass transportation program
11 and that are sold to bus companies holding a federal certificate of
12 convenience and necessity or operated by any city, town or other
13 governmental entity or by any person contracting with such governmental
14 entity as part of a governmentally adopted and controlled program to
15 provide urban mass transportation.

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

17 13. New machinery and equipment consisting of agricultural
18 aircraft, tractors, tractor-drawn implements, self-powered implements,
19 machinery and equipment necessary for extracting milk, and machinery and
20 equipment necessary for cooling milk and livestock, and drip irrigation
21 lines not already exempt under paragraph 6 of this subsection and that are
22 used for commercial production of agricultural, horticultural,
23 viticultural and floricultural crops and products in this state. For the
24 purposes of this paragraph:

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

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

30 14. Machinery or equipment used in research and development. For
31 the purposes of this paragraph, "research and development" means basic and
32 applied research in the sciences and engineering, and designing,
33 developing or testing prototypes, processes or new products, including
34 research and development of computer software that is embedded in or an
35 integral part of the prototype or new product or that is required for
36 machinery or equipment otherwise exempt under this section to function
37 effectively. Research and development do not include manufacturing
38 quality control, routine consumer product testing, market research, sales
39 promotion, sales service, research in social sciences or psychology,
40 computer software research that is not included in the definition of
41 research and development, or other nontechnological activities or
42 technical services.

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

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

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

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

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

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

19 16. Clean rooms that are used for manufacturing, processing,
20 fabrication or research and development, as defined in paragraph 14 of
21 this subsection, of semiconductor products. For the purposes of this
22 paragraph, "clean room" means all property that comprises or creates an
23 environment where humidity, temperature, particulate matter and
24 contamination are precisely controlled within specified parameters,
25 without regard to whether the property is actually contained within that
26 environment or whether any of the property is affixed to or incorporated
27 into real property. Clean room:

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

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

36 17. Machinery and equipment used directly in the feeding of
37 poultry, the environmental control of housing for poultry, the movement of
38 eggs within a production and packaging facility or the sorting or cooling
39 of eggs. This exemption does not apply to vehicles used for transporting
40 eggs.

41 18. Machinery or equipment, including related structural components
42 AND CONTAINMENT STRUCTURES, that is employed in connection with
43 manufacturing, processing, fabricating, job printing, refining, mining,
44 natural gas pipelines, metallurgical operations, telecommunications,
45 producing or transmitting electricity or research and development and that

1 is used directly to meet or exceed rules or regulations adopted by the
2 federal energy regulatory commission, the United States environmental
3 protection agency, the United States nuclear regulatory commission, the
4 Arizona department of environmental quality or a political subdivision of
5 this state to prevent, monitor, control or reduce land, water or air
6 pollution.

7 19. Machinery and equipment that are sold to a person engaged in
8 the commercial production of livestock, livestock products or
9 agricultural, horticultural, viticultural or floricultural crops or
10 products in this state, including a person representing or working on
11 behalf of such a person in a manner described in section 42-5075,
12 subsection 0, if the machinery and equipment are used directly and
13 primarily to prevent, monitor, control or reduce air, water or land
14 pollution.

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

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

24 (b) Machinery or equipment purchased to replace machinery or
25 equipment for which an exemption was previously claimed and taken under
26 this paragraph.

27 (c) Any machinery or equipment purchased after the television
28 station has ceased analog broadcasting, or purchased after November 1,
29 2009, whichever occurs first.

30 21. Qualifying equipment that is purchased from and after June 30,
31 2004 through June 30, 2024 by a qualified business under section 41-1516
32 for harvesting or processing qualifying forest products removed from
33 qualifying projects as defined in section 41-1516. To qualify for this
34 deduction, the qualified business at the time of purchase must present its
35 certification approved by the department.

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

38 1. Expendable materials. For the purposes of this paragraph,
39 expendable materials do not include any of the categories of tangible
40 personal property specified in subsection B of this section regardless of
41 the cost or useful life of that property.

42 2. Janitorial equipment and hand tools.

43 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

31 G. If a person is engaged in the business of selling tangible
32 personal property at both wholesale and retail, the tax under this section
33 applies only to the gross proceeds of the sales made other than at
34 wholesale if the person's books are kept so as to show separately the
35 gross proceeds of sales of each class, and if the books are not so kept,
36 the tax under this section applies to the gross proceeds of every sale so
37 made.

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

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

5 2. Businesses classified under the:

6 (a) Transporting classification.

7 (b) Utilities classification.

8 (c) Telecommunications classification.

9 (d) Pipeline classification.

10 (e) Private car line classification.

11 (f) Publication classification.

12 (g) Job printing classification.

13 (h) Prime contracting classification.

14 (i) Restaurant classification.

15 I. The gross proceeds of sales or gross income derived from the
16 following shall be deducted from the tax base for the retail
17 classification:

18 1. Sales made directly to the United States government or its
19 departments or agencies by a manufacturer, modifier, assembler or
20 repairer.

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

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

31 4. Sales of overhead materials or other tangible personal property
32 to a manufacturer, modifier, assembler or repairer if the gross proceeds
33 of sales or gross income derived from the property by the manufacturer,
34 modifier, assembler or repairer will be exempt under paragraph 3 of this
35 subsection.

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

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

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

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

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

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

12 N. In computing the tax base in the case of the sale or transfer of
13 wireless telecommunications equipment as an inducement to a customer to
14 enter into or continue a contract for telecommunications services that are
15 taxable under section 42-5064, gross proceeds of sales or gross income
16 does not include any sales commissions or other compensation received by
17 the retailer as a result of the customer entering into or continuing a
18 contract for the telecommunications services.

19 O. For the purposes of this section, a sale of wireless
20 telecommunications equipment to a person who holds the equipment for sale
21 or transfer to a customer as an inducement to enter into or continue a
22 contract for telecommunications services that are taxable under section
23 42-5064 is considered to be a sale for resale in the regular course of
24 business.

25 P. Retail sales of prepaid calling cards or prepaid authorization
26 numbers for telecommunications services, including sales of
27 reauthorization of a prepaid card or authorization number, are subject to
28 tax under this section.

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

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

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

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

41 1. The transfer of title or possession of the coal is for the
42 purpose of refining the coal.

43 2. The title or possession of the coal is transferred back to the
44 owner or operator of the power plant after completion of the coal refining
45 process. For the purposes of this paragraph, "coal refining process"

1 means the application of a coal additive system that aids in the reduction
2 of power plant emissions during the combustion of coal and the treatment
3 of flue gas.

4 S. If a seller is entitled to a deduction pursuant to subsection B,
5 paragraph 15, subdivision (b) of this section, the department may require
6 the purchaser to establish that the requirements of subsection B,
7 paragraph 15, subdivision (b) of this section have been satisfied. If the
8 purchaser cannot establish that the requirements of subsection B,
9 paragraph 15, subdivision (b) of this section have been satisfied, the
10 purchaser is liable in an amount equal to any tax, penalty and interest
11 that the seller would have been required to pay under article 1 of this
12 chapter if the seller had not made a deduction pursuant to subsection B,
13 paragraph 15, subdivision (b) of this section. Payment of the amount
14 under this subsection exempts the purchaser from liability for any tax
15 imposed under article 4 of this chapter and related to the tangible
16 personal property purchased. The amount shall be treated as transaction
17 privilege tax to the purchaser and as tax revenues collected from the
18 seller to designate the distribution base pursuant to section 42-5029.

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

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

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

28 U. In computing the tax base for the sale of a motor vehicle to a
29 nonresident of this state, if the purchaser's state of residence allows a
30 corresponding use tax exemption to the tax imposed by article 1 of this
31 chapter and the rate of the tax in the purchaser's state of residence is
32 lower than the rate prescribed in article 1 of this chapter or if the
33 purchaser's state of residence does not impose an excise tax, and the
34 nonresident has secured a special ninety day nonresident registration
35 permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01,
36 there shall be deducted from the tax base a portion of the gross proceeds
37 or gross income from the sale so that the amount of transaction privilege
38 tax that is paid in this state is equal to the excise tax that is imposed
39 by the purchaser's state of residence on the nonexempt sale or use of the
40 motor vehicle.

41 V. For the purposes of this section:

42 1. "Agricultural aircraft" means an aircraft that is built for
43 agricultural use for the aerial application of pesticides or fertilizer or
44 for aerial seeding.

1 2. "Aircraft" includes:

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

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

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

11 4. "Selling at retail" means a sale for any purpose other than for
12 resale in the regular course of business in the form of tangible personal
13 property, but transfer of possession, lease and rental as used in the
14 definition of sale mean only such transactions as are found on
15 investigation to be in lieu of sales as defined without the words lease or
16 rental.

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

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

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

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

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

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

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

1 Sec. 14. Section 42-5061, Arizona Revised Statutes, as amended by
2 Laws 2019, chapter 273, section 8 and chapter 288, section 2, is amended
3 to read:

4 42-5061. Retail classification; definitions

5 A. The retail classification is comprised of the business of
6 selling tangible personal property at retail. The tax base for the retail
7 classification is the gross proceeds of sales or gross income derived from
8 the business. The tax imposed on the retail classification does not apply
9 to the gross proceeds of sales or gross income from:

10 1. Professional or personal service occupations or businesses that
11 involve sales or transfers of tangible personal property only as
12 inconsequential elements.

13 2. Services rendered in addition to selling tangible personal
14 property at retail.

15 3. Sales of warranty or service contracts. The storage, use or
16 consumption of tangible personal property provided under the conditions of
17 such contracts is subject to tax under section 42-5156.

18 4. Sales of tangible personal property by any nonprofit
19 organization organized and operated exclusively for charitable purposes
20 and recognized by the United States internal revenue service under section
21 501(c)(3) of the internal revenue code.

22 5. Sales to persons engaged in business classified under the
23 restaurant classification of articles used by human beings for food, drink
24 or condiment, whether simple, mixed or compounded.

25 6. Business activity that is properly included in any other
26 business classification that is taxable under this article.

27 7. The sale of stocks and bonds.

28 8. Drugs and medical oxygen, including delivery hose, mask or tent,
29 regulator and tank, on the prescription of a member of the medical, dental
30 or veterinarian profession who is licensed by law to administer such
31 substances.

32 9. Prosthetic appliances as defined in section 23-501 and as
33 prescribed or recommended by a health professional who is licensed
34 pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.

35 10. Insulin, insulin syringes and glucose test strips.

36 11. Prescription eyeglasses or contact lenses.

37 12. Hearing aids as defined in section 36-1901.

38 13. Durable medical equipment that has a centers for medicare and
39 medicaid services common procedure code, is designated reimbursable by
40 medicare, is prescribed by a person who is licensed under title 32,
41 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is
42 primarily and customarily used to serve a medical purpose, is generally
43 not useful to a person in the absence of illness or injury and is
44 appropriate for use in the home.

1 14. Sales of motor vehicles to nonresidents of this state for use
2 outside this state if the motor vehicle dealer ships or delivers the motor
3 vehicle to a destination out of this state.

4 15. Food, as provided in and subject to the conditions of article 3
5 of this chapter and sections 42-5074 and 42-6017.

6 16. Items purchased with United States department of agriculture
7 coupons issued under the supplemental nutrition assistance program
8 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
9 7 United States Code sections 2011 through 2036b) by the United States
10 department of agriculture food and nutrition service or food instruments
11 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
12 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
13 section 1786).

14 17. Textbooks by any bookstore that are required by any state
15 university or community college.

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

20 19. Articles of food, drink or condiment and accessory tangible
21 personal property to a school district or charter school if such articles
22 and accessory tangible personal property are to be prepared and served to
23 persons for consumption on the premises of a public school within the
24 district or on the premises of the charter school during school hours.

25 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
26 article 1.

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

34 (a) "Cash equivalents" means items or intangibles, whether or not
35 negotiable, that are sold to one or more persons, through which a value
36 denominated in money is purchased in advance and may be redeemed in full
37 or in part for tangible personal property, intangibles or services. Cash
38 equivalents include gift cards, stored value cards, gift certificates,
39 vouchers, traveler's checks, money orders or other instruments, orders or
40 electronic mechanisms, such as an electronic code, personal identification
41 number or digital payment mechanism, or any other prepaid intangible right
42 to acquire tangible personal property, intangibles or services in the
43 future, whether from the seller of the cash equivalent or from another
44 person. Cash equivalents do not include either of the following:

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

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

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

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

12 22. Motor vehicle fuel and use fuel that are subject to a tax
13 imposed under title 28, chapter 16, article 1, sales of use fuel to a
14 holder of a valid single trip use fuel tax permit issued under section
15 28-5739, sales of aviation fuel that are subject to the tax imposed under
16 section 28-8344 and sales of jet fuel that are subject to the tax imposed
17 under article 8 of this chapter.

18 23. Tangible personal property sold to a person engaged in the
19 business of leasing or renting such property under the personal property
20 rental classification if such property is to be leased or rented by such
21 person.

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

25 25. Tangible personal property sold to:

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

27 (b) A qualifying health care organization as defined in section
28 42-5001 if the tangible personal property is used by the organization
29 solely to provide health and medical related educational and charitable
30 services.

31 (c) A qualifying health care organization as defined in section
32 42-5001 if the organization is dedicated to providing educational,
33 therapeutic, rehabilitative and family medical education training for
34 blind and visually impaired children and children with multiple
35 disabilities from the time of birth to age twenty-one.

36 (d) A qualifying community health center as defined in section
37 42-5001.

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

41 (f) For taxable periods beginning from and after June 30, 2001, a
42 nonprofit charitable organization that has qualified under section
43 501(c)(3) of the internal revenue code and that provides residential
44 apartment housing for low income persons over sixty-two years of age in a
45 facility that qualifies for a federal housing subsidy, if the tangible

1 personal property is used by the organization solely to provide
2 residential apartment housing for low income persons over sixty-two years
3 of age in a facility that qualifies for a federal housing subsidy.

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

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

10 26. Magazines or other periodicals or other publications by this
11 state to encourage tourist travel.

12 27. Tangible personal property sold to:

13 (a) A person that is subject to tax under this article by reason of
14 being engaged in business classified under section 42-5075 or to a
15 subcontractor working under the control of a person engaged in business
16 classified under section 42-5075, if the property so sold is any of the
17 following:

18 (i) Incorporated or fabricated by the person into any real
19 property, structure, project, development or improvement as part of the
20 business.

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

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

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

30 28. The sale of a motor vehicle to:

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

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

38 29. Tangible personal property purchased in this state by a
39 nonprofit charitable organization that has qualified under section
40 501(c)(3) of the United States internal revenue code and that engages in
41 and uses such property exclusively in programs for persons with mental or
42 physical disabilities if the programs are exclusively for training, job
43 placement, rehabilitation or testing.

1 30. Sales of tangible personal property by a nonprofit organization
2 that is exempt from taxation under section 501(c)(3), 501(c)(4) or
3 501(c)(6) of the internal revenue code if the organization is associated
4 with a major league baseball team or a national touring professional
5 golfing association and no part of the organization's net earnings inures
6 to the benefit of any private shareholder or individual. This paragraph
7 does not apply to an organization that is owned, managed or controlled, in
8 whole or in part, by a major league baseball team, or its owners,
9 officers, employees or agents, or by a major league baseball association
10 or professional golfing association, or its owners, officers, employees or
11 agents, unless the organization conducted or operated exhibition events in
12 this state before January 1, 2018 that were exempt from taxation under
13 section 42-5073.

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

19 32. Sales of tangible personal property by a nonprofit organization
20 that is exempt from taxation under section 501(c)(3), 501(c)(4),
21 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the
22 organization sponsors or operates a rodeo featuring primarily farm and
23 ranch animals and no part of the organization's net earnings inures to the
24 benefit of any private shareholder or individual.

25 33. Sales of propagative materials to persons who use those items
26 to commercially produce agricultural, horticultural, viticultural or
27 floricultural crops in this state. For the purposes of this paragraph,
28 "propagative materials":

29 (a) Includes seeds, seedlings, roots, bulbs, liners, transplants,
30 cuttings, soil and plant additives, agricultural minerals, auxiliary soil
31 and plant substances, micronutrients, fertilizers, insecticides,
32 herbicides, fungicides, soil fumigants, desiccants, rodenticides,
33 adjuvants, plant nutrients and plant growth regulators.

34 (b) Except for use in commercially producing industrial hemp as
35 defined in section 3-311, does not include any propagative materials used
36 in producing any part, including seeds, of any plant of the genus
37 cannabis.

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

43 35. Sales of natural gas or liquefied petroleum gas used to propel
44 a motor vehicle.

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

4 37. Petroleum, coke, natural gas, virgin fuel oil and electricity
5 sold to a qualified environmental technology manufacturer, producer or
6 processor as defined in section 41-1514.02 and directly used or consumed
7 in the generation or provision of on-site power or energy solely for
8 environmental technology manufacturing, producing or processing or
9 environmental protection. This paragraph shall apply for twenty full
10 consecutive calendar or fiscal years from the date the first paper
11 manufacturing machine is placed in service. In the case of an
12 environmental technology manufacturer, producer or processor who does not
13 manufacture paper, the time period shall begin with the date the first
14 manufacturing, processing or production equipment is placed in service.

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

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

34 (a) "Personal property liquidation transaction" means a sale of
35 personal property made by a personal property liquidator acting solely on
36 behalf of the owner of the personal property sold at the dwelling of the
37 owner or on the death of any owner, on behalf of the surviving spouse, if
38 any, any devisee or heir or the personal representative of the estate of
39 the deceased, if one has been appointed.

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

42 40. Sales of food, drink and condiment for consumption within the
43 premises of any prison, jail or other institution under the jurisdiction
44 of the state department of corrections, the department of public safety,
45 the department of juvenile corrections or a county sheriff.

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

6 42. Sales of:

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

9 (b) Livestock and poultry feed, salts, vitamins and other additives
10 for livestock or poultry consumption that are sold to persons for use or
11 consumption by their own livestock or poultry, for use or consumption in
12 the businesses of farming, ranching and producing or feeding livestock,
13 poultry, or livestock or poultry products or for use or consumption in
14 noncommercial boarding of livestock. For the purposes of this paragraph,
15 "poultry" includes ratites.

16 43. Sales of implants used as growth promotants and injectable
17 medicines, not already exempt under paragraph 8 of this subsection, for
18 livestock or poultry owned by or in possession of persons who are engaged
19 in producing livestock, poultry, or livestock or poultry products or who
20 are engaged in feeding livestock or poultry commercially. For the
21 purposes of this paragraph, "poultry" includes ratites.

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

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

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

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

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

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

41 48. Tangible personal property sold to a commercial airline and
42 consisting of food, beverages and condiments and accessories used for
43 serving the food and beverages, if those items are to be provided without
44 additional charge to passengers for consumption in flight. For the
45 purposes of this paragraph, "commercial airline" means a person holding a

1 federal certificate of public convenience and necessity or foreign air
2 carrier permit for air transportation to transport persons, property or
3 United States mail in intrastate, interstate or foreign commerce.

4 49. Sales of alternative fuel vehicles if the vehicle was
5 manufactured as a diesel fuel vehicle and converted to operate on
6 alternative fuel and equipment that is installed in a conventional diesel
7 fuel motor vehicle to convert the vehicle to operate on an alternative
8 fuel, as defined in section 1-215.

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

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

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

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

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

26 (b) "Curriculum design or enhancement" means planning, implementing
27 or reporting on courses of study, lessons, assignments or other learning
28 activities.

29 54. Sales of motor vehicle fuel and use fuel to a qualified
30 business under section 41-1516 for off-road use in harvesting, processing
31 or transporting qualifying forest products removed from qualifying
32 projects as defined in section 41-1516.

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

37 56. Sales or other transfers of renewable energy credits or any
38 other unit created to track energy derived from renewable energy
39 resources. For the purposes of this paragraph, "renewable energy credit"
40 means a unit created administratively by the corporation commission or
41 governing body of a public power utility to track kilowatt hours of
42 electricity derived from a renewable energy resource or the kilowatt hour
43 equivalent of conventional energy resources displaced by distributed
44 renewable energy resources.

1 57. Computer data center equipment sold to the owner, operator or
2 qualified colocation tenant of a computer data center that is certified by
3 the Arizona commerce authority under section 41-1519 or an authorized
4 agent of the owner, operator or qualified colocation tenant during the
5 qualification period for use in the qualified computer data center. For
6 the purposes of this paragraph, "computer data center", "computer data
7 center equipment", "qualification period" and "qualified colocation
8 tenant" have the same meanings prescribed in section 41-1519.

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

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

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

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

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

29 60. Sales of works of fine art, as defined in section 44-1771, at
30 an art auction or gallery in this state to nonresidents of this state for
31 use outside this state if the vendor ships or delivers the work of fine
32 art to a destination outside this state.

33 61. Sales of coal.

34 62. Sales of tangible personal property by a marketplace seller
35 that are facilitated by a marketplace facilitator in which the marketplace
36 facilitator has remitted or will remit the applicable tax to the
37 department pursuant to section 42-5014.

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

42 1. Machinery, or equipment, used directly in manufacturing,
43 processing, fabricating, job printing, refining or metallurgical
44 operations. The terms "manufacturing", "processing", "fabricating", "job
45 printing", "refining" and "metallurgical" as used in this paragraph refer

1 to and include those operations commonly understood within their ordinary
2 meaning. "Metallurgical operations" includes leaching, milling,
3 precipitating, smelting and refining.

4 2. Mining machinery, or equipment, used directly in the process of
5 extracting ores or minerals from the earth for commercial purposes,
6 including equipment required to prepare the materials for extraction and
7 handling, loading or transporting such extracted material to the
8 surface. "Mining" includes underground, surface and open pit operations
9 for extracting ores and minerals.

10 3. Tangible personal property sold to persons engaged in business
11 classified under the telecommunications classification, including a person
12 representing or working on behalf of such a person in a manner described
13 in section 42-5075, subsection 0, and consisting of central office
14 switching equipment, switchboards, private branch exchange equipment,
15 microwave radio equipment and carrier equipment including optical fiber,
16 coaxial cable and other transmission media that are components of carrier
17 systems.

18 4. Machinery, equipment or transmission lines used directly in
19 producing or transmitting electrical power, but not including
20 distribution. Transformers and control equipment used at transmission
21 substation sites constitute equipment used in producing or transmitting
22 electrical power.

23 5. Neat animals, horses, asses, sheep, ratites, swine or goats used
24 or to be used as breeding or production stock, including sales of
25 breedings or ownership shares in such animals used for breeding or
26 production.

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

31 7. Aircraft, navigational and communication instruments and other
32 accessories and related equipment sold to:

33 (a) A person:

34 (i) Holding, or exempted by federal law from obtaining, a federal
35 certificate of public convenience and necessity for use as, in conjunction
36 with or becoming part of an aircraft to be used to transport persons for
37 hire in intrastate, interstate or foreign commerce.

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

43 (iii) Holding a foreign air carrier permit for air transportation
44 for use as or in conjunction with or becoming a part of aircraft to be

1 used to transport persons, property or United States mail in intrastate,
2 interstate or foreign commerce.

3 (iv) Operating an aircraft to transport persons in any manner for
4 compensation or hire, or for use in a fractional ownership program that
5 meets the requirements of federal aviation administration regulations
6 (14 Code of Federal Regulations part 91, subpart K), including as an air
7 carrier, a foreign air carrier or a commercial operator or under a
8 restricted category, within the meaning of 14 Code of Federal Regulations,
9 regardless of whether the operation or aircraft is regulated or certified
10 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
11 of Federal Regulations.

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

17 (b) Any foreign government.

18 (c) Persons who are not residents of this state and who will not
19 use such property in this state other than in removing such property from
20 this state. This subdivision also applies to corporations that are not
21 incorporated in this state, regardless of maintaining a place of business
22 in this state, if the principal corporate office is located outside this
23 state and the property will not be used in this state other than in
24 removing the property from this state.

25 8. Machinery, tools, equipment and related supplies used or
26 consumed directly in repairing, remodeling or maintaining aircraft,
27 aircraft engines or aircraft component parts by or on behalf of a
28 certificated or licensed carrier of persons or property.

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

31 10. Machinery or equipment used directly to drill for oil or gas or
32 used directly in the process of extracting oil or gas from the earth for
33 commercial purposes.

34 11. Buses or other urban mass transit vehicles that are used
35 directly to transport persons or property for hire or pursuant to a
36 governmentally adopted and controlled urban mass transportation program
37 and that are sold to bus companies holding a federal certificate of
38 convenience and necessity or operated by any city, town or other
39 governmental entity or by any person contracting with such governmental
40 entity as part of a governmentally adopted and controlled program to
41 provide urban mass transportation.

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

43 13. New machinery and equipment consisting of agricultural
44 aircraft, tractors, tractor-drawn implements, self-powered implements,
45 machinery and equipment necessary for extracting milk, and machinery and

1 equipment necessary for cooling milk and livestock, and drip irrigation
2 lines not already exempt under paragraph 6 of this subsection and that are
3 used for commercial production of agricultural, horticultural,
4 viticultural and floricultural crops and products in this state. For the
5 purposes of this paragraph:

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

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

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

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

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

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

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

36 (ii) Over two-thirds of the transmissions, measured in megabytes,
37 transmitted by or on behalf of those direct broadcast television or data
38 transmission services during the test period were transmitted by the
39 facility to or on behalf of those services. For the purposes of
40 subdivision (b) of this paragraph, "test period" means the three hundred
41 sixty-five day period beginning on the later of the date on which the
42 tangible personal property is purchased or the date on which the direct
43 broadcast satellite television or data transmission service first
44 transmits information to its customers.

1 16. Clean rooms that are used for manufacturing, processing,
2 fabrication or research and development, as defined in paragraph 14 of
3 this subsection, of semiconductor products. For the purposes of this
4 paragraph, "clean room" means all property that comprises or creates an
5 environment where humidity, temperature, particulate matter and
6 contamination are precisely controlled within specified parameters,
7 without regard to whether the property is actually contained within that
8 environment or whether any of the property is affixed to or incorporated
9 into real property. Clean room:

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

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

18 17. Machinery and equipment used directly in the feeding of
19 poultry, the environmental control of housing for poultry, the movement of
20 eggs within a production and packaging facility or the sorting or cooling
21 of eggs. This exemption does not apply to vehicles used for transporting
22 eggs.

23 18. Machinery or equipment, including related structural components
24 **AND CONTAINMENT STRUCTURES**, that is employed in connection with
25 manufacturing, processing, fabricating, job printing, refining, mining,
26 natural gas pipelines, metallurgical operations, telecommunications,
27 producing or transmitting electricity or research and development and that
28 is used directly to meet or exceed rules or regulations adopted by the
29 federal energy regulatory commission, the United States environmental
30 protection agency, the United States nuclear regulatory commission, the
31 Arizona department of environmental quality or a political subdivision of
32 this state to prevent, monitor, control or reduce land, water or air
33 pollution.

34 19. Machinery and equipment that are sold to a person engaged in
35 the commercial production of livestock, livestock products or
36 agricultural, horticultural, viticultural or floricultural crops or
37 products in this state, including a person representing or working on
38 behalf of such a person in a manner described in section 42-5075,
39 subsection 0, if the machinery and equipment are used directly and
40 primarily to prevent, monitor, control or reduce air, water or land
41 pollution.

42 20. Machinery or equipment that enables a television station to
43 originate and broadcast or to receive and broadcast digital television
44 signals and that was purchased to facilitate compliance with the
45 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United

1 States Code section 336) and the federal communications commission order
2 issued April 21, 1997 (47 Code of Federal Regulations part 73). This
3 paragraph does not exempt any of the following:

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

6 (b) Machinery or equipment purchased to replace machinery or
7 equipment for which an exemption was previously claimed and taken under
8 this paragraph.

9 (c) Any machinery or equipment purchased after the television
10 station has ceased analog broadcasting, or purchased after November 1,
11 2009, whichever occurs first.

12 21. Qualifying equipment that is purchased from and after June 30,
13 2004 through June 30, 2024 by a qualified business under section 41-1516
14 for harvesting or processing qualifying forest products removed from
15 qualifying projects as defined in section 41-1516. To qualify for this
16 deduction, the qualified business at the time of purchase must present its
17 certification approved by the department.

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

20 1. Expendable materials. For the purposes of this paragraph,
21 expendable materials do not include any of the categories of tangible
22 personal property specified in subsection B of this section regardless of
23 the cost or useful life of that property.

24 2. Janitorial equipment and hand tools.

25 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

11 G. If a person is engaged in the business of selling tangible
12 personal property at both wholesale and retail, the tax under this section
13 applies only to the gross proceeds of the sales made other than at
14 wholesale if the person's books are kept so as to show separately the
15 gross proceeds of sales of each class, and if the books are not so kept,
16 the tax under this section applies to the gross proceeds of every sale so
17 made.

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

25 1. Agricultural producers who are owners, proprietors or tenants of
26 agricultural lands, orchards, farms or gardens where agricultural products
27 are grown, raised or prepared for market and who are marketing their own
28 agricultural products.

- 29 2. Businesses classified under the:
30 (a) Transporting classification.
31 (b) Utilities classification.
32 (c) Telecommunications classification.
33 (d) Pipeline classification.
34 (e) Private car line classification.
35 (f) Publication classification.
36 (g) Job printing classification.
37 (h) Prime contracting classification.
38 (i) Restaurant classification.

39 I. The gross proceeds of sales or gross income derived from the
40 following shall be deducted from the tax base for the retail
41 classification:

42 1. Sales made directly to the United States government or its
43 departments or agencies by a manufacturer, modifier, assembler or
44 repairer.

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

5 3. Overhead materials or other tangible personal property that is
6 used in performing a contract between the United States government and a
7 manufacturer, modifier, assembler or repairer, including property used in
8 performing a subcontract with a government contractor who is a
9 manufacturer, modifier, assembler or repairer, to which title passes to
10 the government under the terms of the contract or subcontract.

11 4. Sales of overhead materials or other tangible personal property
12 to a manufacturer, modifier, assembler or repairer if the gross proceeds
13 of sales or gross income derived from the property by the manufacturer,
14 modifier, assembler or repairer will be exempt under paragraph 3 of this
15 subsection.

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

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

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

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

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

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

36 N. In computing the tax base in the case of the sale or transfer of
37 wireless telecommunications equipment as an inducement to a customer to
38 enter into or continue a contract for telecommunications services that are
39 taxable under section 42-5064, gross proceeds of sales or gross income
40 does not include any sales commissions or other compensation received by
41 the retailer as a result of the customer entering into or continuing a
42 contract for the telecommunications services.

43 O. For the purposes of this section, a sale of wireless
44 telecommunications equipment to a person who holds the equipment for sale
45 or transfer to a customer as an inducement to enter into or continue a

1 contract for telecommunications services that are taxable under section
2 42-5064 is considered to be a sale for resale in the regular course of
3 business.

4 P. Retail sales of prepaid calling cards or prepaid authorization
5 numbers for telecommunications services, including sales of
6 reauthorization of a prepaid card or authorization number, are subject to
7 tax under this section.

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

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

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

16 R. If a seller is entitled to a deduction pursuant to subsection B,
17 paragraph 15, subdivision (b) of this section, the department may require
18 the purchaser to establish that the requirements of subsection B,
19 paragraph 15, subdivision (b) of this section have been satisfied. If the
20 purchaser cannot establish that the requirements of subsection B,
21 paragraph 15, subdivision (b) of this section have been satisfied, the
22 purchaser is liable in an amount equal to any tax, penalty and interest
23 that the seller would have been required to pay under article 1 of this
24 chapter if the seller had not made a deduction pursuant to subsection B,
25 paragraph 15, subdivision (b) of this section. Payment of the amount
26 under this subsection exempts the purchaser from liability for any tax
27 imposed under article 4 of this chapter and related to the tangible
28 personal property purchased. The amount shall be treated as transaction
29 privilege tax to the purchaser and as tax revenues collected from the
30 seller to designate the distribution base pursuant to section 42-5029.

31 S. For the purposes of section 42-5032.01, the department shall
32 separately account for revenues collected under the retail classification
33 from businesses selling tangible personal property at retail:

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

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

40 T. In computing the tax base for the sale of a motor vehicle to a
41 nonresident of this state, if the purchaser's state of residence allows a
42 corresponding use tax exemption to the tax imposed by article 1 of this
43 chapter and the rate of the tax in the purchaser's state of residence is
44 lower than the rate prescribed in article 1 of this chapter or if the
45 purchaser's state of residence does not impose an excise tax, and the

1 nonresident has secured a special ninety day nonresident registration
2 permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01,
3 there shall be deducted from the tax base a portion of the gross proceeds
4 or gross income from the sale so that the amount of transaction privilege
5 tax that is paid in this state is equal to the excise tax that is imposed
6 by the purchaser's state of residence on the nonexempt sale or use of the
7 motor vehicle.

8 U. For the purposes of this section:

9 1. "Agricultural aircraft" means an aircraft that is built for
10 agricultural use for the aerial application of pesticides or fertilizer or
11 for aerial seeding.

12 2. "Aircraft" includes:

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

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

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

22 4. "Selling at retail" means a sale for any purpose other than for
23 resale in the regular course of business in the form of tangible personal
24 property, but transfer of possession, lease and rental as used in the
25 definition of sale mean only such transactions as are found on
26 investigation to be in lieu of sales as defined without the words lease or
27 rental.

28 V. For the purposes of subsection I of this section:

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

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

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

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

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

3 6. "Subcontract" means an agreement between a contractor and any
4 person who is not an employee of the contractor for furnishing of supplies
5 or services that, in whole or in part, are necessary to the performance of
6 one or more government contracts, or under which any portion of the
7 contractor's obligation under one or more government contracts is
8 performed, undertaken or assumed and that includes provisions causing
9 title to overhead materials or other tangible personal property used in
10 the performance of the subcontract to pass to the government or that
11 includes provisions incorporating such title passing clauses in a
12 government contract into the subcontract.

13 Sec. 15. Section 42-5159, Arizona Revised Statutes, is amended to
14 read:

15 42-5159. Exemptions

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

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

22 2. Tangible personal property, the sale or use of which has already
23 been subjected to an excise tax at a rate equal to or exceeding the tax
24 imposed by this article under the laws of another state of the United
25 States. If the excise tax imposed by the other state is at a rate less
26 than the tax imposed by this article, the tax imposed by this article is
27 reduced by the amount of the tax already imposed by the other state.

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

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

36 5. Motor vehicle fuel and use fuel, the sales, distribution or use
37 of which in this state is subject to the tax imposed under title 28,
38 chapter 16, article 1, use fuel that is sold to or used by a person
39 holding a valid single trip use fuel tax permit issued under section
40 28-5739, aviation fuel, the sales, distribution or use of which in this
41 state is subject to the tax imposed under section 28-8344, and jet fuel,
42 the sales, distribution or use of which in this state is subject to the
43 tax imposed under article 8 of this chapter.

1 6. Tangible personal property brought into this state by an
2 individual who was a nonresident at the time the property was purchased
3 for storage, use or consumption by the individual if the first actual use
4 or consumption of the property was outside this state, unless the property
5 is used in conducting a business in this state.

6 7. Purchases of implants used as growth promotants and injectable
7 medicines, not already exempt under paragraph 16 of this subsection, for
8 livestock and poultry owned by, or in possession of, persons who are
9 engaged in producing livestock, poultry, or livestock or poultry products,
10 or who are engaged in feeding livestock or poultry commercially. For the
11 purposes of this paragraph, "poultry" includes ratites.

12 8. Purchases of:

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

15 (b) Livestock and poultry feed, salts, vitamins and other additives
16 sold to persons for use or consumption in the businesses of farming,
17 ranching and producing or feeding livestock or poultry or for use or
18 consumption in noncommercial boarding of livestock. For the purposes of
19 this paragraph, "poultry" includes ratites.

20 9. Propagative materials for use in commercially producing
21 agricultural, horticultural, viticultural or floricultural crops in this
22 state. For the purposes of this paragraph, "propagative materials":

23 (a) Includes seeds, seedlings, roots, bulbs, liners, transplants,
24 cuttings, soil and plant additives, agricultural minerals, auxiliary soil
25 and plant substances, micronutrients, fertilizers, insecticides,
26 herbicides, fungicides, soil fumigants, desiccants, rodenticides,
27 adjuvants, plant nutrients and plant growth regulators.

28 (b) Except for use in commercially producing industrial hemp as
29 defined in section 3-311, does not include any propagative materials used
30 in producing any part, including seeds, of any plant of the genus
31 cannabis.

32 10. Tangible personal property not exceeding \$200 in any one month
33 purchased by an individual at retail outside the continental limits of the
34 United States for the individual's own personal use and enjoyment.

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

39 12. Materials that are purchased by or for publicly funded
40 libraries including school district libraries, charter school libraries,
41 community college libraries, state university libraries or federal, state,
42 county or municipal libraries for use by the public as follows:

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

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

1 13. Tangible personal property purchased by:

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

5 (b) A hospital operated by this state or a political subdivision of
6 this state.

7 (c) A licensed nursing care institution or a licensed residential
8 care institution or a residential care facility operated in conjunction
9 with a licensed nursing care institution or a licensed kidney dialysis
10 center, which provides medical services, nursing services or health
11 related services and is not used or held for profit.

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

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

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

26 (g) A person that is subject to tax under this chapter by reason of
27 being engaged in business classified under section 42-5075, or a
28 subcontractor working under the control of a person that is engaged in
29 business classified under section 42-5075, if the tangible personal
30 property is any of the following:

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

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

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

37 (h) A person that is not subject to tax under section 42-5075 and
38 that has been provided a copy of a certificate described in section
39 42-5009, subsection L, if the property purchased is incorporated or
40 fabricated by the person into the real property, structure, project,
41 development or improvement described in the certificate.

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

1 (j) A qualifying community health center as defined in section
2 42-5001.

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

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

11 (m) For taxable periods beginning from and after June 30, 2001, a
12 nonprofit charitable organization that has qualified under section
13 501(c)(3) of the internal revenue code and that provides residential
14 apartment housing for low income persons over sixty-two years of age in a
15 facility that qualifies for a federal housing subsidy, if the tangible
16 personal property is used by the organization solely to provide
17 residential apartment housing for low income persons over sixty-two years
18 of age in a facility that qualifies for a federal housing subsidy.

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

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

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

31 15. Tangible personal property sold by:

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

35 (b) A nonprofit organization that is exempt from taxation under
36 section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if
37 the organization is associated with a major league baseball team or a
38 national touring professional golfing association and no part of the
39 organization's net earnings inures to the benefit of any private
40 shareholder or individual. This subdivision does not apply to an
41 organization that is owned, managed or controlled, in whole or in part, by
42 a major league baseball team, or its owners, officers, employees or
43 agents, or by a major league baseball association or professional golfing
44 association, or its owners, officers, employees or agents, unless the
45 organization conducted or operated exhibition events in this state before

1 January 1, 2018 that were exempt from transaction privilege tax under
2 section 42-5073.

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

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

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

17 18. Prescription eyeglasses and contact lenses.

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

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

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

27 22. Food, as provided in and subject to the conditions of article 3
28 of this chapter and sections 42-5074 and 42-6017.

29 23. Items purchased with United States department of agriculture
30 coupons issued under the supplemental nutrition assistance program
31 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
32 7 United States Code sections 2011 through 2036b) by the United States
33 department of agriculture food and nutrition service or food instruments
34 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
35 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
36 section 1786).

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

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

43 26. Food, drink or condiment and accessory tangible personal
44 property that are acquired for use by or provided to a school district or
45 charter school if they are to be either served or prepared and served to

1 persons for consumption on the premises of a public school in the school
2 district or on the premises of the charter school during school hours.

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

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

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

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

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

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

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

27 (b) Public educational institutions.

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

31 33. Natural gas or liquefied petroleum gas used to propel a motor
32 vehicle.

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

38 35. Liquid, solid or gaseous chemicals used in manufacturing,
39 processing, fabricating, mining, refining, metallurgical operations,
40 research and development and, beginning on January 1, 1999, printing, if
41 using or consuming the chemicals, alone or as part of an integrated system
42 of chemicals, involves direct contact with the materials from which the
43 product is produced for the purpose of causing or permitting a chemical or
44 physical change to occur in the materials as part of the production
45 process. This paragraph does not include chemicals that are used or

1 consumed in activities such as packaging, storage or transportation but
2 does not affect any exemption for such chemicals that is otherwise
3 provided by this section. For the purposes of this paragraph, "printing"
4 means a commercial printing operation and includes job printing,
5 engraving, embossing, copying and bookbinding.

6 36. Food, drink and condiment purchased for consumption within the
7 premises of any prison, jail or other institution under the jurisdiction
8 of the state department of corrections, the department of public safety,
9 the department of juvenile corrections or a county sheriff.

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

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

18 39. Overhead materials or other tangible personal property that is
19 used in performing a contract between the United States government and a
20 manufacturer, modifier, assembler or repairer, including property used in
21 performing a subcontract with a government contractor who is a
22 manufacturer, modifier, assembler or repairer, to which title passes to
23 the government under the terms of the contract or subcontract. For the
24 purposes of this paragraph:

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

32 (b) "Subcontract" means an agreement between a contractor and any
33 person who is not an employee of the contractor for furnishing of supplies
34 or services that, in whole or in part, are necessary to the performance of
35 one or more government contracts, or under which any portion of the
36 contractor's obligation under one or more government contracts is
37 performed, undertaken or assumed, and that includes provisions causing
38 title to overhead materials or other tangible personal property used in
39 the performance of the subcontract to pass to the government or that
40 includes provisions incorporating such title passing clauses in a
41 government contract into the subcontract.

42 40. Through December 31, 1994, tangible personal property sold
43 pursuant to a personal property liquidation transaction, as defined in
44 section 42-5061. From and after December 31, 1994, tangible personal
45 property sold pursuant to a personal property liquidation transaction, as

1 defined in section 42-5061, if the gross proceeds of the sales were
2 included in the measure of the tax imposed by article 1 of this chapter or
3 if the personal property liquidation was a casual activity or transaction.

4 41. Wireless telecommunications equipment that is held for sale or
5 transfer to a customer as an inducement to enter into or continue a
6 contract for telecommunications services that are taxable under section
7 42-5064.

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

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

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

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

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

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

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

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

37 48. Tangible personal property sold by a nonprofit organization
38 that is exempt from taxation under section 501(c)(6) of the internal
39 revenue code if the organization produces, organizes or promotes cultural
40 or civic related festivals or events and no part of the organization's net
41 earnings inures to the benefit of any private shareholder or individual.

42 49. Prepared food, drink or condiment donated by a restaurant as
43 classified in section 42-5074, subsection A to a nonprofit charitable
44 organization that has qualified under section 501(c)(3) of the internal

1 revenue code and that regularly serves meals to the needy and indigent on
2 a continuing basis at no cost.

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

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

9 (b) "Curriculum design or enhancement" means planning, implementing
10 or reporting on courses of study, lessons, assignments or other learning
11 activities.

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

16 52. Repair parts installed in equipment used directly by a
17 qualified business under section 41-1516 in harvesting, processing or
18 transporting qualifying forest products removed from qualifying projects
19 as defined in section 41-1516.

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

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

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

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

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

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

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

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

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

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

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

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

34 (ii) Prepaid calling cards for telecommunications services.

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

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

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

1 1. Machinery, or equipment, used directly in manufacturing,
2 processing, fabricating, job printing, refining or metallurgical
3 operations. The terms "manufacturing", "processing", "fabricating", "job
4 printing", "refining" and "metallurgical" as used in this paragraph refer
5 to and include those operations commonly understood within their ordinary
6 meaning. "Metallurgical operations" includes leaching, milling,
7 precipitating, smelting and refining.

8 2. Machinery, or equipment, used directly in the process of
9 extracting ores or minerals from the earth for commercial purposes,
10 including equipment required to prepare the materials for extraction and
11 handling, loading or transporting such extracted material to the surface.
12 "Mining" includes underground, surface and open pit operations for
13 extracting ores and minerals.

14 3. Tangible personal property sold to persons engaged in business
15 classified under the telecommunications classification under section
16 42-5064, including a person representing or working on behalf of such a
17 person in a manner described in section 42-5075, subsection 0, and
18 consisting of central office switching equipment, switchboards, private
19 branch exchange equipment, microwave radio equipment and carrier equipment
20 including optical fiber, coaxial cable and other transmission media that
21 are components of carrier systems.

22 4. Machinery, equipment or transmission lines used directly in
23 producing or transmitting electrical power, but not including
24 distribution. Transformers and control equipment used at transmission
25 substation sites constitute equipment used in producing or transmitting
26 electrical power.

27 5. Neat animals, horses, asses, sheep, ratites, swine or goats used
28 or to be used as breeding or production stock, including sales of
29 breedings or ownership shares in such animals used for breeding or
30 production.

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

35 7. Aircraft, navigational and communication instruments and other
36 accessories and related equipment sold to:

37 (a) A person:

38 (i) Holding, or exempted by federal law from obtaining, a federal
39 certificate of public convenience and necessity for use as, in conjunction
40 with or becoming part of an aircraft to be used to transport persons for
41 hire in intrastate, interstate or foreign commerce.

42 (ii) That is certificated or licensed under federal aviation
43 administration regulations (14 Code of Federal Regulations part 121 or
44 135) as a scheduled or unscheduled carrier of persons for hire for use as

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

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

7 (iv) Operating an aircraft to transport persons in any manner for
8 compensation or hire, or for use in a fractional ownership program that
9 meets the requirements of federal aviation administration regulations
10 (14 Code of Federal Regulations part 91, subpart K), including as an air
11 carrier, a foreign air carrier or a commercial operator or under a
12 restricted category, within the meaning of 14 Code of Federal Regulations,
13 regardless of whether the operation or aircraft is regulated or certified
14 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
15 of Federal Regulations.

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

21 (b) Any foreign government.

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

29 8. Machinery, tools, equipment and related supplies used or
30 consumed directly in repairing, remodeling or maintaining aircraft,
31 aircraft engines or aircraft component parts by or on behalf of a
32 certificated or licensed carrier of persons or property.

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

35 10. Machinery or equipment used directly to drill for oil or gas or
36 used directly in the process of extracting oil or gas from the earth for
37 commercial purposes.

38 11. Buses or other urban mass transit vehicles that are used
39 directly to transport persons or property for hire or pursuant to a
40 governmentally adopted and controlled urban mass transportation program
41 and that are sold to bus companies holding a federal certificate of
42 convenience and necessity or operated by any city, town or other
43 governmental entity or by any person contracting with such governmental
44 entity as part of a governmentally adopted and controlled program to
45 provide urban mass transportation.

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

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

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

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

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

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

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

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

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

40 (ii) Over two-thirds of the transmissions, measured in megabytes,
41 transmitted by or on behalf of those direct broadcast television or data
42 transmission services during the test period were transmitted by the
43 facility to or on behalf of those services. For the purposes of
44 subdivision (b) of this paragraph, "test period" means the three hundred
45 sixty-five day period beginning on the later of the date on which the

1 tangible personal property is purchased or the date on which the direct
2 broadcast satellite television or data transmission service first
3 transmits information to its customers.

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

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

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

21 17. Machinery and equipment that are used directly in the feeding
22 of poultry, the environmental control of housing for poultry, the movement
23 of eggs within a production and packaging facility or the sorting or
24 cooling of eggs. This exemption does not apply to vehicles used for
25 transporting eggs.

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

37 19. Machinery and equipment that are used in the commercial
38 production of livestock, livestock products or agricultural,
39 horticultural, viticultural or floricultural crops or products in this
40 state, including production by a person representing or working on behalf
41 of such a person in a manner described in section 42-5075, subsection 0,
42 if the machinery and equipment are used directly and primarily to prevent,
43 monitor, control or reduce air, water or land pollution.

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

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

10 (b) Machinery or equipment purchased to replace machinery or
11 equipment for which an exemption was previously claimed and taken under
12 this paragraph.

13 (c) Any machinery or equipment purchased after the television
14 station has ceased analog broadcasting, or purchased after November 1,
15 2009, whichever occurs first.

16 21. Qualifying equipment that is purchased from and after June 30,
17 2004 through June 30, 2024 by a qualified business under section 41-1516
18 for harvesting or processing qualifying forest products removed from
19 qualifying projects as defined in section 41-1516. To qualify for this
20 exemption, the qualified business must obtain and present its
21 certification from the Arizona commerce authority at the time of purchase.

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

28 C. The exemptions provided by subsection B of this section do not
29 include:

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

34 2. Janitorial equipment and hand tools.

35 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

41 (a) "Gas transportation services" means the services of
42 transporting natural gas to a natural gas customer or to a natural gas
43 distribution facility if the natural gas was purchased from a supplier
44 other than the utility.

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

8 (c) "Qualified manufacturing or smelting business" means one of the
9 following:

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

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

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

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

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

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

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

32 H. A city or town may exempt proceeds from sales of paintings,
33 sculptures or similar works of fine art if such works of fine art are sold
34 by the original artist. For the purposes of this subsection, fine art
35 does not include an art creation such as jewelry, macrame, glasswork,
36 pottery, woodwork, metalwork, furniture or clothing if the art creation
37 has a dual purpose, both aesthetic and utilitarian, whether sold by the
38 artist or by another person.

39 I. For the purposes of subsection B of this section:

40 1. "Agricultural aircraft" means an aircraft that is built for
41 agricultural use for the aerial application of pesticides or fertilizer or
42 for aerial seeding.

1 2. "Aircraft" includes:

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

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

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

11 J. For the purposes of subsection D of this section, "ancillary
12 services", "electric distribution service", "electric generation service",
13 "electric transmission service" and "other services" have the same
14 meanings prescribed in section 42-5063.

15 Sec. 16. Section 42-15001, Arizona Revised Statutes, is amended to
16 read:

17 42-15001. Assessed valuation of class one property

18 The assessed valuation of class one property described in section
19 42-12001 is the following percentage of its full cash value or limited
20 valuation, as applicable:

21 1. Twenty-five ~~per cent~~ PERCENT through December 31, 2005.

22 2. Twenty-four and one-half ~~per cent~~ PERCENT beginning from and
23 after December 31, 2005 through December 31, 2006.

24 3. Twenty-four ~~per cent~~ PERCENT beginning from and after December
25 31, 2006 through December 31, 2007.

26 4. Twenty-three ~~per cent~~ PERCENT beginning from and after December
27 31, 2007 through December 31, 2008.

28 5. Twenty-two ~~per cent~~ PERCENT beginning from and after December
29 31, 2008 through December 31, 2009.

30 6. Twenty-one ~~per cent~~ PERCENT beginning from and after December
31 31, 2009 through December 31, 2010.

32 7. Twenty ~~per cent~~ PERCENT beginning from and after December 31,
33 2010 through December 31, 2012.

34 8. Nineteen and one-half ~~per cent~~ PERCENT beginning from and after
35 December 31, 2012 through December 31, 2013.

36 9. Nineteen ~~per cent~~ PERCENT beginning from and after December 31,
37 2013 through December 31, 2014.

38 10. Eighteen and one-half ~~per cent~~ PERCENT beginning from and after
39 December 31, 2014 through December 31, 2015.

40 11. Eighteen ~~per cent~~ PERCENT beginning from and after December 31,
41 2015 THROUGH DECEMBER 31, 2021.

42 12. SEVENTEEN AND ONE-HALF PERCENT BEGINNING FROM AND AFTER
43 DECEMBER 31, 2021 THROUGH DECEMBER 31, 2022.

44 13. SEVENTEEN PERCENT BEGINNING FROM AND AFTER DECEMBER 31, 2022.

1 Sec. 17. Title 43, chapter 2, article 1, Arizona Revised Statutes,
2 is amended by adding section 43-205, to read:

3 43-205. Revenue sharing stabilization fund; distributions;
4 calculation; exception; definitions

5 A. THE REVENUE SHARING STABILIZATION FUND IS ESTABLISHED CONSISTING
6 OF MONIES TRANSFERRED PURSUANT TO SUBSECTION E OF THIS SECTION FROM THE
7 STATE GENERAL FUND.

8 B. ON OR BEFORE SEPTEMBER 1, 2025, THE DEPARTMENT SHALL CALCULATE
9 THE FISCAL YEAR 2025-2026 DISTRIBUTIONS FROM THE REVENUE SHARING
10 STABILIZATION FUND FOR EACH CITY AND TOWN BY:

11 1. DETERMINING THE AMOUNT OF STATE SHARED REVENUE RECEIVED BY THE
12 CITY OR TOWN DURING FISCAL YEAR 2024-2025.

13 2. DETERMINING THE AMOUNT OF STATE SHARED REVENUE RECEIVED BY THE
14 CITY OR TOWN DURING FISCAL YEAR 2021-2022.

15 3. SUBTRACTING THE AMOUNT DETERMINED PURSUANT TO PARAGRAPH 2 OF
16 THIS SUBSECTION BY THE AMOUNT DETERMINED PURSUANT TO PARAGRAPH 1 OF THIS
17 SUBSECTION. IF THE AMOUNT DETERMINED PURSUANT TO THIS PARAGRAPH IS A
18 NEGATIVE AMOUNT, THE CITY OR TOWN MAY NOT RECEIVE A DISTRIBUTION FROM THE
19 REVENUE SHARING STABILIZATION FUND DURING FISCAL YEAR 2025-2026. IF THE
20 AMOUNT DETERMINED PURSUANT TO THIS PARAGRAPH IS A POSITIVE AMOUNT, THE
21 CITY OR TOWN SHALL RECEIVE THAT AMOUNT AS PROVIDED BY SUBSECTION E OF THIS
22 SECTION.

23 C. ON OR BEFORE SEPTEMBER 1, 2026, THE DEPARTMENT SHALL CALCULATE
24 THE FISCAL YEAR 2026-2027 DISTRIBUTIONS FROM THE REVENUE SHARING
25 STABILIZATION FUND FOR EACH CITY AND TOWN BY:

26 1. DETERMINING THE AMOUNT OF STATE SHARED REVENUE RECEIVED BY THE
27 CITY OR TOWN DURING FISCAL YEAR 2025-2026.

28 2. DETERMINING THE AMOUNT OF STATE SHARED REVENUE RECEIVED BY THE
29 CITY OR TOWN DURING FISCAL YEAR 2021-2022.

30 3. SUBTRACTING THE AMOUNT DETERMINED PURSUANT TO PARAGRAPH 2 OF
31 THIS SUBSECTION BY THE AMOUNT DETERMINED PURSUANT TO PARAGRAPH 1 OF THIS
32 SUBSECTION. IF THE AMOUNT DETERMINED PURSUANT TO THIS PARAGRAPH IS A
33 NEGATIVE AMOUNT, THE CITY OR TOWN MAY NOT RECEIVE A DISTRIBUTION FROM THE
34 REVENUE SHARING STABILIZATION FUND DURING FISCAL YEAR 2026-2027. IF THE
35 AMOUNT DETERMINED PURSUANT TO THIS PARAGRAPH IS A POSITIVE AMOUNT, THE
36 CITY OR TOWN SHALL RECEIVE THAT AMOUNT AS PROVIDED BY SUBSECTION E OF THIS
37 SECTION.

38 D. AFTER CALCULATING THE AMOUNTS PRESCRIBED BY SUBSECTION B OR C OF
39 THIS SECTION, THE DEPARTMENT SHALL NOTIFY THE STATE TREASURER OF THE TOTAL
40 ENTITLEMENT FOR EACH CITY AND TOWN FOR THE APPLICABLE FISCAL YEAR FROM THE
41 REVENUE SHARING STABILIZATION FUND.

42 E. ON NOTIFICATION BY THE DEPARTMENT, THE STATE TREASURER SHALL
43 TRANSMIT THE ENTITLEMENT FOR EACH CITY AND TOWN FROM THE REVENUE SHARING
44 STABILIZATION FUND IN EQUAL MONTHLY INSTALLMENTS DURING THE APPLICABLE
45 FISCAL YEAR. THESE MONIES SHALL BE TRANSMITTED TO EACH CITY OR TOWN NOT

1 LATER THAN THE TENTH DAY OF EACH MONTH. EACH MONTH THE STATE TREASURER
2 SHALL TRANSFER SUFFICIENT MONIES FROM THE STATE GENERAL FUND TO THE
3 REVENUE SHARING STABILIZATION FUND FOR THE PAYMENTS REQUIRED BY THIS
4 SECTION.

5 F. A CITY OR TOWN MAY NOT RECEIVE A DISTRIBUTION FROM THE REVENUE
6 SHARING STABILIZATION FUND DURING A FISCAL YEAR IF THE CITY OR TOWN HAS
7 REDUCED THE ANNUAL OPERATING BUDGET FOR A LAW ENFORCEMENT AGENCY BY ANY
8 AMOUNT BELOW THE PREVIOUS FISCAL YEAR'S BUDGET.

9 G. FOR THE PURPOSES OF THIS SECTION:

10 1. "LAW ENFORCEMENT AGENCY" MEANS A MUNICIPAL POLICE DEPARTMENT.

11 2. "STATE SHARED REVENUE" MEANS THE MONIES RECEIVED BY A CITY OR
12 TOWN PURSUANT TO SECTIONS 42-5029 AND 43-206.

13 Sec. 18. Section 43-222, Arizona Revised Statutes, is amended to
14 read:

15 43-222. Income tax credit review schedule

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

18 1. For years ending in 0 and 5, sections 43-1079.01, 43-1087,
19 43-1088, 43-1089.04, 43-1167.01 and 43-1175.

20 2. For years ending in 1 and 6, sections 43-1072.02, 43-1074.02,
21 43-1076.01, 43-1083, 43-1083.02, 43-1162, 43-1164.03 and 43-1183.

22 3. For years ending in 2 and 7, sections 43-1073, 43-1085, 43-1086,
23 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1164 and 43-1169.

24 4. For years ending in 3 and 8, sections 43-1074.01, 43-1081,
25 43-1168, 43-1170 and 43-1178.

26 5. For years ending in 4 and 9, sections 43-1073.01, 43-1076,
27 43-1081.01, 43-1083.03, 43-1084, 43-1164.04, 43-1164.05, and 43-1184.

28 Sec. 19. Title 43, chapter 2, article 2, Arizona Revised Statutes,
29 is amended by adding section 43-225, to read:

30 43-225. Affordable housing tax credit review committee;
31 reports

32 A. THE AFFORDABLE HOUSING TAX CREDIT REVIEW COMMITTEE IS
33 ESTABLISHED CONSISTING OF THE FOLLOWING MEMBERS:

34 1. THREE MEMBERS WHO ARE APPOINTED BY THE GOVERNOR, NOT MORE THAN
35 TWO OF WHOM ARE MEMBERS OF THE SAME POLITICAL PARTY.

36 2. THREE MEMBERS WHO ARE APPOINTED BY THE PRESIDENT OF THE SENATE,
37 NOT MORE THAN TWO OF WHOM ARE MEMBERS OF THE SAME POLITICAL PARTY.

38 3. THREE MEMBERS WHO ARE APPOINTED BY THE SPEAKER OF THE HOUSE OF
39 REPRESENTATIVES, NOT MORE THAN TWO OF WHOM ARE MEMBERS OF THE SAME
40 POLITICAL PARTY.

41 B. APPOINTED MEMBERS SERVE AT THE PLEASURE OF THE PERSON WHO MADE
42 THE APPOINTMENT.

43 C. COMMITTEE MEMBERS ARE NOT ELIGIBLE TO RECEIVE COMPENSATION BUT
44 ARE ELIGIBLE TO RECEIVE REIMBURSEMENT FOR EXPENSES PURSUANT TO TITLE 38,
45 CHAPTER 4, ARTICLE 2.

1 D. THE COMMITTEE SHALL REVIEW THE AFFORDABLE HOUSING TAX CREDITS
2 ALLOWED UNDER SECTIONS 20-224.04, 41-3954, 43-1075 AND 43-1163 ON THE
3 THIRD YEAR AFTER THE EFFECTIVE DATE OF THE CREDIT AND EVERY THREE YEARS
4 THEREAFTER. THE COMMITTEE'S REVIEW SHALL INCLUDE THE FOLLOWING:

5 1. THE HISTORY, RATIONALE AND ESTIMATED REVENUE IMPACT OF THE
6 CREDIT.

7 2. WHETHER THE CREDIT HAS PROVIDED A BENEFIT TO THIS STATE THAT
8 INCLUDES, FOR CORPORATE TAX CREDITS, MEASURABLE ECONOMIC DEVELOPMENT, NEW
9 INVESTMENTS, CREATION OF NEW JOBS OR RETENTION OF EXISTING JOBS IN THIS
10 STATE.

11 3. WHETHER THE CREDIT IS UNNECESSARILY COMPLEX IN THE APPLICATION,
12 ADMINISTRATION AND APPROVAL PROCESSES.

13 4. THE NUMBER OF HOUSING UNITS GENERATED AS A RESULT OF THE TAX
14 CREDIT AND THE AVERAGE INCOME OF RESIDENTS OFFERED HOUSING UNITS.

15 E. ON OR BEFORE DECEMBER 15 OF THE YEAR THE COMMITTEE REVIEWS THE
16 CREDIT, THE COMMITTEE SHALL REPORT ITS FINDINGS AND RECOMMENDATIONS TO THE
17 PRESIDENT OF THE SENATE, THE SPEAKER OF THE HOUSE OF REPRESENTATIVES AND
18 THE GOVERNOR AND SHALL PROVIDE A COPY OF THE REPORT TO THE SECRETARY OF
19 STATE.

20 Sec. 20. Delayed repeal

21 Section 43-225, Arizona Revised Statutes, as added by this act, is
22 repealed from and after December 31, 2025.

23 Sec. 21. Section 43-581, Arizona Revised Statutes, is amended to
24 read:

25 43-581. Payment of estimated tax; rules; penalty; forms

26 A. An individual who is subject to the tax imposed by ~~this title~~
27 SECTION 43-1011 and whose Arizona gross income, as defined by section
28 43-1001, or as described by section 43-1091 in the case of nonresidents,
29 for the taxable year exceeds ~~seventy-five thousand dollars~~ \$75,000 or ~~one~~
30 ~~hundred fifty thousand dollars~~ \$150,000 if a joint return is filed and
31 whose Arizona gross income was greater than ~~seventy-five thousand dollars~~
32 \$75,000 in the preceding taxable year or ~~one hundred fifty thousand~~
33 ~~dollars~~ \$150,000 in the preceding taxable year if a joint return is filed
34 shall make payments of estimated tax during the individual's taxable
35 year. The amount of the payments of estimated tax shall be an amount that
36 reasonably reflects a taxpayer's Arizona income tax liability that will be
37 unpaid at the end of the taxpayer's taxable year. This amount shall be
38 paid in four installments on or before the due dates established by the
39 internal revenue code and shall total, when combined with the taxpayer's
40 withholding tax, at least ninety percent of the tax due for the current
41 taxable year or one hundred percent of the tax due for the preceding
42 taxable year.

43 B. Any other individual who is subject to the tax imposed by this
44 title may make payments of estimated tax during the individual's taxable
45 year. The amount of any estimated tax payments for the taxable year shall

1 be an amount that reasonably reflects a taxpayer's Arizona income tax
2 liability that will be unpaid at the end of the taxpayer's taxable year.

3 C. The department shall prescribe rules for the payments of
4 estimated tax that shall provide for estimated payments in a manner
5 similar to the manner prescribed in the internal revenue code.

6 D. If the taxpayer does not pay the estimated tax required by
7 subsection A of this section on or before the prescribed dates, there is
8 assessed and the department shall collect a penalty on the unpaid amount
9 as prescribed by section 42-1125, subsection Q. ~~No~~ Penalties or interest
10 shall **NOT** be assessed or collected if either of the following applies:

11 1. The estimated tax payments made pursuant to this section are
12 allowable exceptions under section 6654 of the internal revenue code.

13 2. The taxpayer's Arizona income tax liability due on the
14 taxpayer's return is less than ~~one thousand dollars~~ **\$1,000**. For the
15 purposes of this paragraph, "Arizona income tax liability due on the
16 taxpayer's return" means the amount of tax due on the return minus the
17 amount of Arizona income tax withheld and tax credits claimed by the
18 taxpayer.

19 E. The department shall make available suitable forms and
20 instructions to taxpayers who make estimated tax payments pursuant to this
21 article.

22 Sec. 22. Section 43-1011, Arizona Revised Statutes, is amended to
23 read:

24 43-1011. Taxes and tax rates

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

29 1. For taxable years beginning from and after December 31, 1996
30 through December 31, 1997:

31 (a) In the case of a single person or a married person filing
32 separately:

<u>If taxable income is:</u>	<u>The tax is:</u>
33 \$0 – \$10,000	33 2.90% of taxable income
34 \$10,001 – \$25,000	34 \$290, plus 3.30% of the excess
35	35 over \$10,000
36 \$25,001 – \$50,000	36 \$785, plus 3.90% of the excess
37	37 over \$25,000
38 \$50,001 – \$150,000	38 \$1,760, plus 4.80% of the excess
39	39 over \$50,000
40 \$150,001 and over	40 \$6,560, plus 5.17% of the excess
41	41 over \$150,000
42	

1 (b) In the case of a married couple filing a joint return or a
 2 single person who is a head of a household:

<u>If taxable income is:</u>	<u>The tax is:</u>
3 \$0 – \$20,000	2.90% of taxable income
4 \$20,001 – \$50,000	\$580, plus 3.30% of the excess 5 over \$20,000
6 \$50,001 – \$100,000	\$1,570, plus 3.90% of the excess 7 over \$50,000
8 \$100,001 – \$300,000	\$3,520, plus 4.80% of the excess 9 over \$100,000
10 \$300,001 and over	\$13,120, plus 5.17% of the 11 excess over \$300,000

12
 13 2. For taxable years beginning from and after December 31, 1997
 14 through December 31, 1998:

15 (a) In the case of a single person or a married person filing
 16 separately:

<u>If taxable income is:</u>	<u>The tax is:</u>
17 \$0 – \$10,000	2.88% of taxable income
18 \$10,001 – \$25,000	\$288, plus 3.24% of the excess 19 over \$10,000
20 \$25,001 – \$50,000	\$774, plus 3.82% of the excess 21 over \$25,000
22 \$50,001 – \$150,000	\$1,729, plus 4.74% of the excess 23 over \$50,000
24 \$150,001 and over	\$6,469, plus 5.10% of the excess 25 over \$150,000

26
 27 (b) In the case of a married couple filing a joint return or a
 28 single person who is a head of a household:

<u>If taxable income is:</u>	<u>The tax is:</u>
29 \$0 – \$20,000	2.88% of taxable income
30 \$20,001 – \$50,000	\$576, plus 3.24% of the excess 31 over \$20,000
32 \$50,001 – \$100,000	\$1,548, plus 3.82% of the excess 33 over \$50,000
34 \$100,001 – \$300,000	\$3,458, plus 4.74% of the excess 35 over \$100,000
36 \$300,001 and over	\$12,938, plus 5.10% of the 37 excess over \$300,000

38
 39 3. For taxable years beginning from and after December 31, 1998
 40 through December 31, 2005:

41 (a) In the case of a single person or a married person filing
 42 separately:

<u>If taxable income is:</u>	<u>The tax is:</u>
\$0 – \$10,000	2.87% of taxable income
\$10,001 – \$25,000	\$287, plus 3.20% of the excess over \$10,000
\$25,001 – \$50,000	\$767, plus 3.74% of the excess over \$25,000
\$50,001 – \$150,000	\$1,702, plus 4.72% of the excess over \$50,000
\$150,001 and over	\$6,422, plus 5.04% of the excess over \$150,000

(b) In the case of a married couple filing a joint return or a single person who is a head of a household:

<u>If taxable income is:</u>	<u>The tax is:</u>
\$0 – \$20,000	2.87% of taxable income
\$20,001 – \$50,000	\$574, plus 3.20% of the excess over \$20,000
\$50,001 – \$100,000	\$1,534, plus 3.74% of the excess over \$50,000
\$100,001 – \$300,000	\$3,404, plus 4.72% of the excess over \$100,000
\$300,001 and over	\$12,844, plus 5.04% of the excess over \$300,000

4. For taxable years beginning from and after December 31, 2005 through December 31, 2006:

(a) In the case of a single person or a married person filing separately:

<u>If taxable income is:</u>	<u>The tax is:</u>
\$0 – \$10,000	2.73% of taxable income
\$10,001 – \$25,000	\$273, plus 3.04% of the excess over \$10,000
\$25,001 – \$50,000	\$729, plus 3.55% of the excess over \$25,000
\$50,001 – \$150,000	\$1,617, plus 4.48% of the excess over \$50,000
\$150,001 and over	\$6,097, plus 4.79% of the excess over \$150,000

(b) In the case of a married couple filing a joint return or a single person who is a head of a household:

<u>If taxable income is:</u>	<u>The tax is:</u>
\$0 – \$20,000	2.73% of taxable income
\$20,001 – \$50,000	\$546, plus 3.04% of the excess over \$20,000
\$50,001 – \$100,000	\$1,458, plus 3.55% of the excess over \$50,000

1	\$100,001 – \$300,000	\$3,233, plus 4.48% of the excess
2		over \$100,000
3	\$300,001 and over	\$12,193, plus 4.79% of the
4		excess over \$300,000

5 5. Subject to subsections B and C of this section, for taxable
6 years beginning from and after December 31, 2006 through December 31,
7 2018:

8 (a) In the case of a single person or a married person filing
9 separately:

	<u>If taxable income is:</u>	<u>The tax is:</u>
10	\$0 – \$10,000	2.59% of taxable income
11	\$10,001 – \$25,000	\$259, plus 2.88% of the excess
12		over \$10,000
13	\$25,001 – \$50,000	\$691, plus 3.36% of the excess
14		over \$25,000
15	\$50,001 – \$150,000	\$1,531, plus 4.24% of the excess
16		over \$50,000
17	\$150,001 and over	\$5,771, plus 4.54% of the excess
18		over \$150,000

19
20 (b) In the case of a married couple filing a joint return or a
21 single person who is a head of a household:

	<u>If taxable income is:</u>	<u>The tax is:</u>
22	\$0 – \$20,000	2.59% of taxable income
23	\$20,001 – \$50,000	\$518, plus 2.88% of the excess
24		over \$20,000
25	\$50,001 – \$100,000	\$1,382, plus 3.36% of the excess
26		over \$50,000
27	\$100,001 – \$300,000	\$3,062, plus 4.24% of the excess
28		over \$100,000
29	\$300,001 and over	\$11,542, plus 4.54% of the
30		excess over \$300,000

31
32 6. Subject to ~~subsection~~ SUBSECTIONS D AND E of this section, for
33 taxable years beginning from and after December 31, 2018 THROUGH DECEMBER
34 31, 2021:

35 (a) In the case of a single person or a married person filing
36 separately:

	<u>If taxable income is:</u>	<u>The tax is:</u>
37	\$0 – \$26,500	2.59% of taxable income
38	\$26,501 – \$53,000	\$686, plus 3.34% of the amount
39		over \$26,500
40	\$53,001 – \$159,000	\$1,571, plus 4.17% of the
41		amount over \$53,000
42	\$159,001 and over	\$5,991, plus 4.50% of the amount
43		over \$159,000
44		

1 (b) In the case of a married couple filing a joint return or a
2 single person who is a head of a household:

<u>If taxable income is:</u>	<u>The tax is:</u>
3 \$0 – \$53,000	2.59% of taxable income
4 \$53,001 – \$106,000	\$1,373, plus 3.34% of the amount 5 over \$53,000
6 \$106,001 – \$318,000	\$3,143, plus 4.17% of the amount 7 over \$106,000
8 \$318,001 and over	\$11,983, plus 4.50% of the 9 amount over \$318,000

10
11 7. SUBJECT TO SUBSECTION E OF THIS SECTION, FOR TAXABLE YEARS
12 BEGINNING FROM AND AFTER DECEMBER 31, 2021 THROUGH DECEMBER 31, 2022:

13 (a) IN THE CASE OF A SINGLE PERSON OR A MARRIED PERSON FILING
14 SEPARATELY:

<u>IF TAXABLE INCOME IS:</u>	<u>THE TAX IS:</u>
15 \$0 – \$27,272	2.55% OF TAXABLE INCOME
16 \$27,273 AND OVER	\$695, PLUS 2.98% OF THE AMOUNT 17 OVER \$27,273

18
19 (b) IN THE CASE OF A MARRIED COUPLE FILING A JOINT RETURN OR A
20 SINGLE PERSON WHO IS A HEAD OF A HOUSEHOLD:

<u>IF TAXABLE INCOME IS:</u>	<u>THE TAX IS:</u>
21 \$0 – \$54,544	2.55% OF TAXABLE INCOME
22 \$54,545 AND OVER	\$1,391, PLUS 2.98% OF THE AMOUNT 23 OVER \$54,545

24
25 8. SUBJECT TO SUBSECTION E OF THIS SECTION, FOR TAXABLE YEARS
26 BEGINNING FROM AND AFTER DECEMBER 31, 2022, THE TAX IS 2.5% OF TAXABLE
27 INCOME.

28 B. For the taxable year beginning from and after December 31, 2014
29 through December 31, 2015, the department shall adjust the income dollar
30 amounts for each rate bracket prescribed by subsection A, paragraph 5 of
31 this section according to the average annual change in the metropolitan
32 Phoenix consumer price index published by the United States department of
33 labor, bureau of labor statistics. The revised dollar amounts shall be
34 raised to the nearest whole dollar. The income dollar amounts for each
35 rate bracket may not be revised below the amounts prescribed in the prior
36 taxable year.

37 C. For each taxable year beginning from and after December 31, 2015
38 through December 31, 2018, the department shall adjust the income dollar
39 amounts for each rate bracket prescribed by subsection A, paragraph 5 of
40 this section according to the average annual change in the metropolitan
41 Phoenix consumer price index published by the United States department of
42 labor, bureau of labor statistics. The revised dollar amounts shall be
43 raised to the nearest whole dollar. The income dollar amounts for each
44 rate bracket may not be revised below the amounts prescribed in the prior
45 taxable year.

1 D. For each taxable year beginning from and after December 31, 2019
2 THROUGH DECEMBER 31, 2021, the department shall adjust the income dollar
3 amount for each rate bracket prescribed by subsection A, paragraph 6 of
4 this section according to the average annual change in the metropolitan
5 Phoenix consumer price index published by the United States department of
6 labor, bureau of labor statistics. The revised dollar amounts shall be
7 raised to the nearest whole dollar. The income dollar amounts for each
8 rate bracket may not be revised below the amounts prescribed in the prior
9 taxable year.

10 E. FOR EACH TAXABLE YEAR BEGINNING FROM AND AFTER DECEMBER 31,
11 2020, FOR TAXABLE INCOME THAT IS SUBJECT TO THE INCOME TAX SURCHARGE
12 IMPOSED BY SECTION 43-1013, THE COMBINED TAX RATE OF THE INCOME TAX
13 SURCHARGE IMPOSED BY SECTION 43-1013 AND THE HIGHEST TAX RATE IMPOSED BY
14 SUBSECTION A, PARAGRAPH 6, 7 OR 8 OF THIS SECTION MAY NOT EXCEED FOUR AND
15 ONE-HALF PERCENT. IF THE COMBINED TAX RATE EXCEEDS FOUR AND ONE-HALF
16 PERCENT, THE HIGHEST TAX RATE IMPOSED BY SUBSECTION A, PARAGRAPH 6, 7 OR 8
17 OF THIS SECTION SHALL BE REDUCED SO THAT THE COMBINED TAX RATE IS FOUR AND
18 ONE-HALF PERCENT. THE DEPARTMENT MAY ADOPT RULES PURSUANT TO TITLE 41,
19 CHAPTER 6 TO CARRY OUT THIS SUBSECTION.

20 Sec. 23. Section 43-1022, Arizona Revised Statutes, is amended to
21 read:

22 43-1022. Subtractions from Arizona gross income

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

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

26 2. Benefits, annuities and pensions in an amount totaling not more
27 than \$2,500 received from one or more of the following:

28 (a) The United States government service retirement and disability
29 fund, the United States foreign service retirement and disability system
30 and any other retirement system or plan established by federal law, except
31 retired or retainer pay of the uniformed services of the United States
32 that qualifies for a subtraction under paragraph 27 of this section.

33 (b) The Arizona state retirement system, the corrections officer
34 retirement plan, the public safety personnel retirement system, the
35 elected officials' retirement plan, an optional retirement program
36 established by the Arizona board of regents under section 15-1628, an
37 optional retirement program established by a community college district
38 board under section 15-1451 or a retirement plan established for employees
39 of a county, city or town in this state.

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

1 4. Interest income received on obligations of the United States,
2 minus any interest on indebtedness, or other related expenses, and
3 deducted in arriving at Arizona gross income, that were incurred or
4 continued to purchase or carry such obligations.

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

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

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

13 8. The portion of any wages or salaries paid or incurred by the
14 taxpayer for the taxable year that is equal to the amount of the federal
15 work opportunity credit, the empowerment zone employment credit, the
16 credit for employer paid social security taxes on employee cash tips and
17 the Indian employment credit that the taxpayer received under sections
18 45A, 45B, 51(a) and 1396 of the internal revenue code.

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

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

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

33 12. The amount of unreimbursed medical and hospital costs, adoption
34 counseling, legal and agency fees and other nonrecurring costs of adoption
35 not to exceed \$3,000. In the case of a husband and wife who file separate
36 returns, the subtraction may be taken by either taxpayer or may be divided
37 between them, but the total subtractions allowed both husband and wife
38 shall not exceed \$3,000. The subtraction under this paragraph may be
39 taken for the costs that are described in this paragraph and that are
40 incurred in prior years, but the subtraction may be taken only in the year
41 during which the final adoption order is granted.

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

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

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

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

13 17. The amount authorized by section 43-1030 relating to holocaust
14 survivors.

15 18. For property placed in service:

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

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

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

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

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

6 19. With respect to property that is sold or otherwise disposed of
7 during the taxable year by a taxpayer that complied with section 43-1021,
8 paragraph 12 with respect to that property, the amount of depreciation
9 that has been allowed pursuant to section 167(a) of the internal revenue
10 code to the extent that the amount has not already reduced Arizona taxable
11 income in the current or prior taxable years.

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

16 (a) \$2,000 for a single individual or a head of household.

17 (b) \$4,000 for a married couple filing a joint return. In the case
18 of a husband and wife who file separate returns, the subtraction may be
19 taken by either taxpayer or may be divided between them, but the total
20 subtractions allowed both husband and wife shall not exceed \$4,000.

21 21. The portion of the net operating loss carryforward that would
22 have been allowed as a deduction in the current year pursuant to section
23 172 of the internal revenue code if the election described in section
24 172(b)(1)(H) of the internal revenue code had not been made in the year of
25 the loss that exceeds the actual net operating loss carryforward that was
26 deducted in arriving at federal adjusted gross income. This subtraction
27 only applies to taxpayers who made an election under section 172(b)(1)(H)
28 of the internal revenue code as amended by section 1211 of the American
29 recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by
30 section 13 of the worker, homeownership, and business assistance act of
31 2009 (P.L. 111-92).

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

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

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

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

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

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

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

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

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

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

24 27. Benefits, annuities and pensions received as retired or
25 retainer pay of the uniformed services of the United States in amounts as
26 follows:

27 (a) For taxable years through December 31, 2018, an amount totaling
28 not more than \$2,500.

29 (b) For taxable years beginning from and after December 31, 2018
30 THROUGH DECEMBER 31, 2020, an amount totaling not more than \$3,500.

31 (c) FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2020,
32 THE FULL AMOUNT RECEIVED.

33 Sec. 24. Section 43-1041, Arizona Revised Statutes, is amended to
34 read:

35 43-1041. Optional standard deduction

36 A. A taxpayer may elect to take a standard deduction as follows:

37 1. In the case of a single person or a married person filing
38 separately, the standard deduction is \$12,200, subject to subsection H of
39 this section.

40 2. In the case of a single person who is a head of a household, the
41 standard deduction is \$18,350, subject to subsection H of this section.

42 3. In the case of a married couple filing a joint return, the
43 standard deduction is \$24,400, subject to subsection H of this section.

1 B. The standard deduction provided for in subsection A of this
2 section is in lieu of all itemized deductions allowed by section 43-1042,
3 which are to be subtracted from Arizona adjusted gross income in computing
4 taxable income.

5 C. The standard deduction is allowed if the taxpayer so
6 elects. The election is made by the taxpayer claiming on the tax return
7 the amount provided for in this section in lieu of the itemized deductions
8 allowed under section 43-1042. Electing to file a short form return or a
9 simplified return that does not allow itemized deductions to be claimed is
10 considered to be an election to claim the standard deduction.

11 D. In the case of a husband and wife, the standard deduction
12 provided for in subsection A of this section is not allowed to either if
13 the taxable income of one of the spouses is determined without regard to
14 the standard deduction.

15 E. The standard deduction provided for by subsection A of this
16 section is not allowed in the case of a taxable year of less than twelve
17 months on account of a change in the accounting period.

18 F. Except as provided in subsection G of this section, a change of
19 an election to take, or not to take, the standard deduction for any
20 taxable year may be made after the filing of the return for that year.

21 G. A taxpayer is not allowed to change an election to take, or not
22 to take, the standard deduction if:

23 1. The spouse of the taxpayer filed a separate return for any
24 taxable year corresponding, for the purposes of subsection D of this
25 section, to the taxable year of the taxpayer unless both of the following
26 apply:

27 (a) The spouse makes a change of election with respect to the
28 standard deduction for the taxable year covered in the separate return
29 consistent with the change of election sought by the taxpayer.

30 (b) The taxpayer and spouse consent in writing to the assessment,
31 within such a period as may be agreed on with the department, of any
32 deficiency, to the extent attributable to the change of election, even
33 though at the time of filing the consent the assessment of the deficiency
34 would otherwise be prevented by the operation of any law or rule of law.

35 2. The tax liability of the taxpayer or the taxpayer's spouse for
36 the taxable year has been compromised.

37 H. For each taxable year beginning from and after December 31,
38 2019, the department shall adjust the dollar amounts prescribed by
39 subsection A, paragraphs 1, 2 and 3 of this section for inflation in the
40 same manner in which the federal basic standard deduction is adjusted for
41 inflation pursuant to section 63 of the internal revenue code.

42 I. For taxable years beginning from and after December 31, 2018,
43 the standard deduction allowed under subsection A of this section shall be
44 increased by the amount equal to twenty-five percent of the total amount
45 of a taxpayer's charitable deductions that would have been allowed if the

1 taxpayer elected to claim itemized deductions under section 43-1042 rather
2 than elect the standard deduction. FOR TAXABLE YEARS BEGINNING FROM AND
3 AFTER DECEMBER 31, 2021, THE DEPARTMENT SHALL ADJUST THE PERCENTAGE
4 PRESCRIBED IN THIS SUBSECTION ACCORDING TO THE AVERAGE ANNUAL CHANGE IN
5 THE METROPOLITAN PHOENIX CONSUMER PRICE INDEX PUBLISHED BY THE UNITED
6 STATES DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS, EXCEPT THAT THE
7 ADJUSTED PERCENTAGE MAY NOT EXCEED ONE HUNDRED PERCENT. THE REVISED
8 PERCENTAGE SHALL BE RAISED TO THE NEAREST WHOLE PERCENT AND MAY NOT BE
9 REVISED BELOW THE AMOUNTS PRESCRIBED IN THE PRIOR TAXABLE YEAR.

10 Sec. 25. Section 43-1073.01, Arizona Revised Statutes, is amended
11 to read:

12 43-1073.01. Dependent tax credit

13 A. A credit is allowed against the taxes imposed by this title for
14 a taxable year for each dependent of a taxpayer as provided by this
15 section.

16 B. For taxpayers whose federal adjusted gross income is less than
17 \$200,000 for a taxpayer who is a single person, a married person filing
18 separately or a head of household or is less than \$400,000 for a married
19 couple filing a joint return, the amount of the credit is:

20 1. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2021:

21 (a) \$100 for each dependent who is under seventeen years of age at
22 the end of the taxable year.

23 ~~2.~~ (b) \$25 for each dependent who is at least seventeen years of
24 age at the end of the taxable year.

25 2. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2021:

26 (a) \$150 FOR EACH DEPENDENT WHO IS UNDER SEVENTEEN YEARS OF AGE AT
27 THE END OF THE TAXABLE YEAR.

28 (b) \$75 FOR EACH DEPENDENT WHO IS AT LEAST SEVENTEEN YEARS OF AGE
29 AT THE END OF THE TAXABLE YEAR.

30 C. For taxpayers whose federal adjusted gross income is \$200,000 or
31 more for a taxpayer who is a single person, a married person filing
32 separately or a head of household or is \$400,000 or more for a married
33 couple filing a joint return, the amount of the credit is:

34 1. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2021:

35 (a) \$100 minus five percent for each \$1,000, or fraction thereof,
36 by which the taxpayer's federal adjusted gross income exceeds the
37 applicable threshold provided in this subsection for each dependent who is
38 under seventeen years of age at the end of the taxable year.

39 ~~2.~~ (b) \$25 minus five percent for each \$1,000, or fraction
40 thereof, by which the taxpayer's federal adjusted gross income exceeds the
41 applicable threshold provided in this subsection for each dependent who is
42 at least seventeen years of age at the end of the taxable year.

43 1. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2021:

44 (a) \$150 MINUS FIVE PERCENT FOR EACH \$1,000, OR FRACTION THEREOF,
45 BY WHICH THE TAXPAYER'S FEDERAL ADJUSTED GROSS INCOME EXCEEDS THE

1 APPLICABLE THRESHOLD PROVIDED IN THIS SUBSECTION FOR EACH DEPENDENT WHO IS
2 UNDER SEVENTEEN YEARS OF AGE AT THE END OF THE TAXABLE YEAR.

3 (b) \$75 MINUS FIVE PERCENT FOR EACH \$1,000, OR FRACTION THEREOF, BY
4 WHICH THE TAXPAYER'S FEDERAL ADJUSTED GROSS INCOME EXCEEDS THE APPLICABLE
5 THRESHOLD PROVIDED IN THIS SUBSECTION FOR EACH DEPENDENT WHO IS AT LEAST
6 SEVENTEEN YEARS OF AGE AT THE END OF THE TAXABLE YEAR.

7 D. In the case of a nonresident or part-year resident taxpayer, the
8 credit allowed under this section is allowed in the percentage that the
9 taxpayer's Arizona gross income is of the federal adjusted gross income.

10 Sec. 26. Section 43-1074.02, Arizona Revised Statutes, is amended
11 to read:

12 43-1074.02. Credit for investment in qualified small
13 businesses

14 A. For taxable years beginning from and after December 31, 2006
15 through December 31, ~~2024~~ 2034, a credit is allowed against the taxes
16 imposed by this title for investment made after June 30, 2006 in qualified
17 small businesses. The amount of the credit is the amount determined and
18 authorized by the Arizona commerce authority as provided by section
19 41-1518.

20 B. To claim the credit under this section, the taxpayer shall
21 attach to its tax return a copy of the Arizona commerce authority
22 certification provided pursuant to section 41-1518. ~~No~~ A credit is ~~NOT~~
23 allowed under this section unless the taxpayer provides the certification.

24 C. The basis of any investment with respect to which the taxpayer
25 has claimed a credit under this section shall be reduced by the amount of
26 the credit claimed with respect to that investment.

27 D. If the allowable tax credit exceeds the taxes due under this
28 title on the claimant's income, or if there are no taxes due under this
29 title, the amount of the claim not used to offset the taxes under this
30 title may be carried forward to the next three consecutive taxable years
31 as a credit against subsequent years' income tax liability.

32 E. Individuals who are co-owners of a business, including partners
33 in a partnership and shareholders of an S corporation as defined in
34 section 1361 of the internal revenue code, may each claim only their
35 individual pro rata shares of the credit allowed under this section based
36 on their ownership interests. The total of the credits allowed all such
37 owners may not exceed the amount that would have been allowed a sole
38 owner.

39 F. If the department of revenue determines that there has been a
40 misrepresentation on an application submitted to the Arizona commerce
41 authority under section 41-1518, the department of revenue shall deny the
42 credit if the misrepresentation relates to whether the applicant was a
43 qualified investor or made a qualified investment. If the
44 misrepresentation relates to whether the investment was made to:

1 1. A qualified small business, the department of revenue shall deny
2 the credit only if the applicant knew or should have known at any time
3 before the certification that the representation was false.

4 2. A bioscience enterprise or a business that maintains its
5 principal place of business in a rural county in this state, the
6 department of revenue shall decrease the amount of the credit that would
7 have been allowed only if the applicant knew or should have known at any
8 time before the certification that the representation was false.

9 Sec. 27. Title 43, chapter 10, article 5, Arizona Revised Statutes,
10 is amended by adding section 43-1075, to read:

11 43-1075. Affordable housing tax credit

12 A. A TAXPAYER IS ALLOWED A CREDIT AGAINST THE TAXES IMPOSED BY THIS
13 TITLE IF THE ARIZONA DEPARTMENT OF HOUSING ISSUES AN ELIGIBILITY STATEMENT
14 FOR A QUALIFIED PROJECT PURSUANT TO SECTION 41-3954. THE AMOUNT OF THE
15 CREDIT:

16 1. IS EQUAL TO AT LEAST FIFTY PERCENT OF THE AMOUNT OF THE FEDERAL
17 LOW-INCOME HOUSING CREDIT FOR THE QUALIFIED PROJECT.

18 2. ON NOTICE TO THE DEPARTMENT OF REVENUE, MAY BE ALLOCATED AMONG
19 THE PARTNERS, MEMBERS OR SHAREHOLDERS, AS THEY MAY AGREE AMONG THEMSELVES
20 REGARDLESS OF THE SIZE OF THE TAXPAYER'S OWNERSHIP INTEREST. THE TOTAL OF
21 THE ALLOCATED CREDITS AMONG ALL PARTNERS, MEMBERS OR SHAREHOLDERS MAY NOT
22 EXCEED THE AMOUNT OF THE CREDIT APPROVED BY THE ARIZONA DEPARTMENT OF
23 HOUSING. THIS PARAGRAPH DOES NOT PROHIBIT A PARTNER, MEMBER OR
24 SHAREHOLDER FROM HOLDING AN INVESTMENT EXCLUSIVELY IN EITHER THE STATE
25 CREDITS OR FEDERAL CREDITS ALLOCATED TO THE QUALIFIED PROJECT.

26 B. TO CLAIM THE CREDIT UNDER THIS SECTION, THE TAXPAYER MUST SUBMIT
27 THE ELIGIBILITY STATEMENT PROVIDED BY THE ARIZONA DEPARTMENT OF HOUSING
28 UNDER SECTION 41-3954 TO THE DEPARTMENT OF REVENUE WITH THE TAXPAYER'S
29 INCOME TAX RETURN. A CREDIT UNDER THIS SECTION IS NOT ALLOWED UNTIL THE
30 TAXPAYER FURNISHES THE REQUIRED DOCUMENTATION.

31 C. IF THE AMOUNT OF THE CREDIT FOR A TAXABLE YEAR EXCEEDS THE
32 AMOUNT OF TAXES OTHERWISE DUE UNDER THIS TITLE ON THE CLAIMANT'S INCOME,
33 OR IF THERE ARE NO TAXES DUE UNDER THIS TITLE, THE TAXPAYER MAY CARRY THE
34 AMOUNT OF THE CLAIM NOT USED TO OFFSET THE TAXES UNDER THIS TITLE FORWARD
35 FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE YEARS' INCOME TAX LIABILITY.

36 D. IF ALL OR PART OF THE FEDERAL LOW-INCOME HOUSING TAX CREDIT WITH
37 RESPECT TO THE QUALIFIED PROJECT IS SUBJECT TO RECAPTURE UNDER SECTION 42
38 OF THE INTERNAL REVENUE CODE DURING THE FIRST TEN TAXABLE YEARS AFTER THE
39 PROJECT IS PLACED IN SERVICE, THE CREDIT UNDER THIS SECTION IS ALSO
40 SUBJECT TO RECAPTURE IN A PROPORTIONAL AMOUNT FROM ALL TAXPAYERS WHO
41 CLAIMED THE CREDIT. THE RECAPTURE IS CALCULATED BY INCREASING THE AMOUNT
42 OF TAXES IMPOSED IN THE FOLLOWING YEAR BY THE AMOUNT RECAPTURED.

1 E. THE DEPARTMENT OF REVENUE, WITH THE COOPERATION OF THE
2 DEPARTMENT OF INSURANCE AND FINANCIAL INSTITUTIONS AND THE ARIZONA
3 DEPARTMENT OF HOUSING, SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS
4 AND PROCEDURES AS NECESSARY TO ADMINISTER THIS SECTION.

5 Sec. 28. Delayed repeal

6 Section 43-1075, Arizona Revised Statutes, as added by this act, is
7 repealed from and after December 31, 2025.

8 Sec. 29. Title 43, chapter 10, article 5, Arizona Revised Statutes,
9 is amended by adding section 43-1076.01, to read:

10 43-1076.01. Healthy forest production tax credit; definitions

11 A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2020, A
12 CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR PROCESSING
13 QUALIFYING FOREST PRODUCTS.

14 B. THE TAXPAYER IS ELIGIBLE FOR THE CREDIT IF ALL OF THE FOLLOWING
15 APPLY:

16 1. THE TAXPAYER HAS A CURRENT HEALTHY FOREST ENTERPRISE INCENTIVE
17 CERTIFICATION AND MEMORANDUM OF UNDERSTANDING WITH THE ARIZONA COMMERCE
18 AUTHORITY PURSUANT TO SECTION 41-1516.

19 2. THE TAXPAYER PROCESSES QUALIFYING FOREST PRODUCTS FROM A
20 QUALIFYING PROJECT FROM AND AFTER DECEMBER 31, 2020 AND BEFORE JANUARY 1,
21 2031.

22 3. THE FACILITY THAT PROCESSES QUALIFYING FOREST PRODUCTS IS
23 LOCATED WITHIN THIS STATE.

24 C. THE TAXPAYER IS ELIGIBLE FOR THE CREDIT FOR THE CALENDAR YEAR IN
25 WHICH THE QUALIFYING PROJECT PROCESSES QUALIFYING FOREST PRODUCTS PURSUANT
26 TO SUBSECTION B OF THIS SECTION.

27 D. IF THE ALLOWABLE CREDIT UNDER THIS SECTION EXCEEDS THE TAXES
28 OTHERWISE DUE UNDER THIS TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE
29 NO TAXES DUE UNDER THIS TITLE, THE TAXPAYER MAY CARRY FORWARD THE AMOUNT
30 OF THE CLAIM NOT USED TO OFFSET THE TAXES UNDER THIS TITLE FOR NOT MORE
31 THAN FIVE CONSECUTIVE TAXABLE YEARS' INCOME TAX LIABILITY.

32 E. THE CREDIT AUTHORIZED BY THIS SECTION IS BASED ON THE NUMBER OF
33 TONS OF QUALIFYING FOREST PRODUCTS THAT A TAXPAYER PROCESSES DURING A
34 CALENDAR YEAR. FOR A TAXPAYER WHO FILES ON A FISCAL YEAR BASIS, THE CREDIT
35 SHALL BE CLAIMED ON THE RETURN FOR THE TAXABLE YEAR IN WHICH THE CALENDAR
36 YEAR ENDS.

37 F. SUBJECT TO SUBSECTION H OF THIS SECTION, THE AMOUNT OF THE
38 CREDIT IS \$10,000 FOR THE FIRST TWENTY THOUSAND TONS AND \$5,000 FOR EVERY
39 TEN THOUSAND TONS THEREAFTER OF QUALIFYING FOREST PRODUCTS THE TAXPAYER
40 PROCESSES IN THE CALENDAR YEAR.

41 G. TO BE ELIGIBLE FOR THE CREDIT UNDER THIS SECTION, THE TAXPAYER
42 MUST APPLY TO THE DEPARTMENT, ON A FORM PRESCRIBED BY THE DEPARTMENT, FOR
43 CERTIFICATION OF THE CREDIT. THE DEPARTMENT SHALL ACCEPT APPLICATIONS
44 BEGINNING JANUARY 2 THROUGH JANUARY 31 OF THE YEAR FOLLOWING THE CALENDAR

1 YEAR FOR WHICH THE CREDIT IS BEING REQUESTED. THE APPLICATION SHALL
2 INCLUDE:

3 1. THE TAXPAYER'S NAME, ADDRESS AND SOCIAL SECURITY NUMBER OR
4 FEDERAL EMPLOYER IDENTIFICATION NUMBER.

5 2. THE LOCATION OF THE TAXPAYER'S FACILITY THAT PROCESSES
6 QUALIFYING FOREST PRODUCTS FOR WHICH THE CREDIT IS CLAIMED.

7 3. THE AMOUNT OF THE CREDIT THAT IS CLAIMED.

8 4. THE DATE THE TAXPAYER BEGAN PROCESSING COMMERCIALY MARKETABLE
9 AMOUNTS OF QUALIFYING FOREST PRODUCTS.

10 5. ANY ADDITIONAL INFORMATION THAT THE DEPARTMENT REQUIRES.

11 H. THE DEPARTMENT SHALL REVIEW EACH APPLICATION UNDER SUBSECTION G
12 OF THIS SECTION AND CERTIFY TO THE TAXPAYER THE AMOUNT OF THE CREDIT
13 AUTHORIZED. THE AMOUNT OF THE CREDIT FOR ANY CALENDAR YEAR MAY NOT EXCEED
14 \$500,000 PER TAXPAYER WHO PROCESSES QUALIFYING FOREST PRODUCTS. CREDITS
15 ARE ALLOWED UNDER THIS SECTION AND SECTION 43-1162 ON A FIRST-COME,
16 FIRST-SERVED BASIS. THE DEPARTMENT MAY NOT AUTHORIZE TAX CREDITS UNDER
17 THIS SECTION AND SECTION 43-1162 THAT EXCEED IN THE AGGREGATE A TOTAL OF
18 \$2,000,000 FOR ANY CALENDAR YEAR.

19 I. THE FIRST TIME A TAXPAYER SUBMITS A QUALIFIED APPLICATION UNDER
20 SUBSECTION G OF THIS SECTION, THE DEPARTMENT SHALL ADD THE TAXPAYER'S NAME
21 TO A CREDIT AUTHORIZATION LIST IN THE ORDER IN WHICH QUALIFIED
22 APPLICATIONS ARE FIRST RECEIVED BY THE DEPARTMENT ON BEHALF OF THE
23 TAXPAYER. A TAXPAYER'S POSITION ON THE CREDIT AUTHORIZATION LIST SHALL BE
24 DETERMINED IN THE FIRST YEAR THE TAXPAYER SUBMITS AN APPLICATION UNDER
25 SUBSECTION G OF THIS SECTION FOR PROCESSING QUALIFYING FOREST PRODUCTS.
26 THE TAXPAYER'S POSITION ON THE LIST SHALL REMAIN UNCHANGED FOR THE
27 REMAINDER OF THE PERIOD SPECIFIED IN SUBSECTION B, PARAGRAPH 2 OF THIS
28 SECTION OR UNTIL A YEAR IN WHICH THE TAXPAYER FAILS TO SUBMIT A TIMELY
29 APPLICATION UNDER SUBSECTION G OF THIS SECTION OR OTHERWISE FAILS TO
30 COMPLY WITH THIS SECTION. IF A TAXPAYER IS REMOVED FROM THE CREDIT
31 AUTHORIZATION LIST FOR PROCESSING QUALIFYING FOREST PRODUCTS, THE TAXPAYER
32 MAY ESTABLISH A NEW POSITION ON THE CREDIT AUTHORIZATION LIST IN A
33 SUBSEQUENT YEAR BY FILING A TIMELY APPLICATION FOR PROCESSING QUALIFYING
34 FOREST PRODUCTS THAT QUALIFIES FOR THE CREDIT.

35 J. IF AN APPLICATION IS RECEIVED THAT, IF AUTHORIZED, WOULD REQUIRE
36 THE DEPARTMENT TO EXCEED THE \$2,000,000 LIMIT, THE DEPARTMENT SHALL GRANT
37 THE APPLICANT ONLY THE REMAINING CREDIT AMOUNT THAT WOULD NOT EXCEED THE
38 \$2,000,000 LIMIT. AFTER THE DEPARTMENT AUTHORIZES \$2,000,000 IN TAX
39 CREDITS, THE DEPARTMENT SHALL DENY ANY SUBSEQUENT APPLICATIONS RECEIVED
40 FOR THAT CALENDAR YEAR. THE DEPARTMENT MAY NOT AUTHORIZE ANY ADDITIONAL
41 TAX CREDITS THAT EXCEED THE \$2,000,000 LIMIT EVEN IF THE AMOUNTS THAT HAVE
42 BEEN CERTIFIED TO ANY TAXPAYER WERE NOT CLAIMED OR A TAXPAYER OTHERWISE
43 FAILS TO MEET THE REQUIREMENTS TO CLAIM THE ADDITIONAL CREDIT.

1 K. CO-OWNERS OF A FACILITY THAT PROCESSES QUALIFYING FOREST
2 PRODUCTS, INCLUDING PARTNERS IN A PARTNERSHIP AND SHAREHOLDERS OF AN
3 S CORPORATION AS DEFINED IN SECTION 1361 OF THE INTERNAL REVENUE CODE, MAY
4 EACH CLAIM THE PRO RATA SHARE OF THE CREDIT ALLOWED UNDER THIS SECTION
5 BASED ON OWNERSHIP INTEREST. THE TOTAL OF THE CREDITS ALLOWED ALL SUCH
6 OWNERS WHO PROCESS QUALIFYING FOREST PRODUCTS MAY NOT EXCEED THE AMOUNT
7 THAT WOULD HAVE BEEN ALLOWED FOR A SOLE OWNER.

8 L. THE DEPARTMENT SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS
9 AND PROCEDURES AS NECESSARY TO EFFECTUATE THE PURPOSES OF THIS SECTION.

10 M. FOR THE PURPOSES OF THIS SECTION:

11 1. "PROCESSED" OR "PROCESSING" MEANS ANY CHANGE IN THE PHYSICAL
12 STRUCTURE OF QUALIFYING FOREST PRODUCTS REMOVED FROM A QUALIFYING PROJECT
13 INTO A MARKETABLE COMMERCIAL PRODUCT OR COMPONENT OF A PRODUCT THAT HAS
14 COMMERCIAL VALUE TO A CONSUMER OR PURCHASER AND THAT IS READY TO BE USED
15 WITH OR WITHOUT FURTHER ALTERING ITS FORM.

16 2. "QUALIFYING FOREST PRODUCTS" MEANS QUALIFYING FOREST PRODUCTS AS
17 DEFINED IN SECTION 41-1516 THAT ARE SOURCED WITHIN THIS STATE.

18 3. "QUALIFYING PROJECT" HAS THE SAME MEANING PRESCRIBED IN SECTION
19 41-1516.

20 Sec. 30. Section 43-1089.01, Arizona Revised Statutes, is amended
21 to read:

22 43-1089.01. Tax credit; public school fees and contributions;
23 definitions

24 A. A credit is allowed against the taxes imposed by this title for
25 the amount of any fees paid or cash contributions made by a taxpayer or on
26 the taxpayer's behalf pursuant to section 43-401, subsection G during the
27 taxable year to a public school located in this state for the following
28 public school purposes:

29 1. Standardized testing for college credit or readiness offered by
30 a widely recognized and accepted educational testing organization.

31 2. The career and technical education industry certification
32 assessment.

33 3. Preparation courses and materials for standardized testing.

34 4. Cardiopulmonary resuscitation training pursuant to section
35 15-718.01.

36 5. Extracurricular activities.

37 6. Character education programs.

38 7. From and after June 30, 2019 through June 30, ~~2022~~ 2024:

39 (a) Acquiring capital items, as defined in the uniform system of
40 financial records, including those items listed in section 15-903,
41 subsection C, paragraphs 2 through 8.

42 (b) Community school meal programs.

43 (c) Student consumable health care supplies.

44 (d) Playground equipment and shade structures for playground
45 equipment.

- 1 B. The amount of the credit shall not exceed:
2 1. \$200 for a single individual or a head of household.
3 2. \$400 for a married couple filing a joint return.

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

7 D. The credit allowed by this section is in lieu of any deduction
8 pursuant to section 170 of the internal revenue code and taken for state
9 tax purposes.

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

15 F. The site council of the public school that receives
16 contributions that are not designated for a specific purpose shall
17 determine how the contributions are used at the school site. If a charter
18 school does not have a site council, the principal, director or chief
19 administrator of the charter school shall determine how the contributions
20 that are not designated for a specific purpose are used at the school
21 site. If at the end of a fiscal year a public school has unspent
22 contributions that were previously designated for a specific purpose or
23 program and that purpose or program has been discontinued or has not been
24 used for two consecutive fiscal years, these contributions shall be
25 considered undesignated in the following fiscal year for the purposes of
26 this subsection, and the site council may transfer these undesignated
27 contributions to any school within the same school district.

28 G. A public school that receives fees or a cash contribution
29 pursuant to subsection A of this section shall report to the department,
30 in a form prescribed by the department, by February 28 of each year the
31 following information:

32 1. The total number of fee and cash contribution payments received
33 during the previous calendar year.

34 2. The total dollar amount of fees and contributions received
35 during the previous calendar year.

36 3. The total dollar amount of fees and contributions spent by the
37 school during the previous calendar year, categorized by specific
38 standardized testing, preparation courses and materials for standardized
39 testing, extracurricular activity or character education program.

40 H. For the purposes of this section, a contribution for which a
41 credit is claimed and that is made on or before the fifteenth day of the
42 fourth month following the close of the taxable year may be applied to
43 either the current or preceding taxable year and is considered to have
44 been made on the last day of that taxable year.

1 I. For the purposes of this section:

2 1. "Career and technical education industry certification
3 assessment" means an assessment for career and technical preparation
4 programs for pupils.

5 2. "Character education programs" means a program described in
6 section 15-719.

7 3. "Community school meal program" means a school meal program that
8 takes place before or after the regular school day on school property.

9 4. "Extracurricular activities" means school-sponsored activities
10 that may require enrolled students to pay a fee in order to participate,
11 including fees for:

12 (a) Band uniforms.

13 (b) Equipment or uniforms for varsity athletic activities.

14 (c) Scientific laboratory materials.

15 (d) In-state or out-of-state trips that are solely for competitive
16 events. Extracurricular activities do not include any senior trips or
17 events that are recreational, amusement or tourist activities.

18 5. "Public school" means a school that is part of a school
19 district, a career technical education district or a charter school.

20 6. "Standardized testing for college credit or readiness" includes
21 the SAT, PSAT, ACT, advanced placement and international baccalaureate
22 diploma tests and other similar tests.

23 7. "Student consumable health care supplies" includes tissues, hand
24 wipes, bandages and other health care consumables that are generally used
25 by children.

26 8. "Widely recognized and accepted educational testing
27 organization" means the college board, the ACT, the international
28 baccalaureate and other organizations that are widely recognized and
29 accepted by colleges and universities in the United States and that offer
30 college credit and readiness examinations.

31 Sec. 31. Section 43-1122, Arizona Revised Statutes, is amended to
32 read:

33 43-1122. Subtractions from Arizona gross income; corporations

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

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

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

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

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

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

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

18 7. The amount of previously deferred discharge of indebtedness
19 income that is included in the computation of federal taxable income in
20 the current taxable year pursuant to section 108(i) of the internal
21 revenue code as added by section 1231 of the American recovery and
22 reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was
23 previously added to Arizona gross income pursuant to section 43-1121,
24 paragraph 5.

25 8. With respect to a financial institution as defined in section
26 6-101, expenses and interest relating to tax-exempt income disallowed
27 pursuant to section 265 of the internal revenue code.

28 9. Dividends received from another corporation owned or controlled
29 directly or indirectly by a recipient corporation. For the purposes of
30 this paragraph, "control" means direct or indirect ownership or control of
31 fifty percent or more of the voting stock of the payor corporation by the
32 recipient corporation. Dividends shall have the meaning provided in
33 section 316 of the internal revenue code. This subtraction shall apply
34 without regard to section 43-961, paragraph 2 and article 4 of this
35 chapter.

36 10. Interest income received on obligations of the United States.

37 11. The amount of dividend income from foreign corporations.

38 12. The amount of net operating loss allowed by section 43-1123.

39 13. The amount of any state income tax refunds received that were
40 included as income in computing federal taxable income.

41 14. The amount of expense recapture included in income pursuant to
42 section 617 of the internal revenue code for mine exploration expenses.

43 15. The amount of deferred exploration expenses allowed by section
44 43-1127.

1 16. The amount of exploration expenses related to the exploration
2 of oil, gas or geothermal resources, computed in the same manner and on
3 the same basis as a deduction for mine exploration pursuant to section 617
4 of the internal revenue code. This computation is subject to the
5 adjustments contained in section 43-1121, paragraph 12 and paragraphs 14
6 and 15 of this section relating to exploration expenses.

7 17. The amortization of pollution control devices allowed by
8 section 43-1129.

9 18. The amount of amortization of the cost of child care facilities
10 pursuant to section 43-1130.

11 19. The amount of income from a domestic international sales
12 corporation required to be included in the income of its shareholders
13 pursuant to section 995 of the internal revenue code.

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

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

20 22. An amount equal to the depreciation allowable pursuant to
21 section 167(a) of the internal revenue code for the taxable year computed
22 as if the election described in section 168(k)(7) of the internal revenue
23 code had been made for each applicable class of property in the year the
24 property was placed in service.

25 23. The amount of eligible access expenditures paid or incurred
26 during the taxable year to comply with the requirements of the Americans
27 with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9,
28 article 8 as provided by section 43-1124.

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

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

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

38 25. THE AMOUNT OF THE CONTRIBUTION IN AID OF CONSTRUCTION AND
39 ADVANCE IN AID OF CONSTRUCTION FOR WATER AND WASTEWATER UTILITIES AS
40 DESCRIBED BY 26 CODE OF FEDERAL REGULATIONS SECTION 1.118-2 TO THE EXTENT
41 THE AMOUNT WAS INCLUDED IN FEDERAL TAXABLE INCOME.

1 Sec. 32. Title 43, chapter 11, article 6, Arizona Revised Statutes,
2 is amended by adding sections 43-1162 and 43-1163, to read:

3 43-1162. Healthy forest production tax credit; definitions

4 A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2020, A
5 CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR PROCESSING
6 QUALIFYING FOREST PRODUCTS.

7 B. THE TAXPAYER IS ELIGIBLE FOR THE CREDIT IF ALL OF THE FOLLOWING
8 APPLY:

9 1. THE TAXPAYER HAS A CURRENT HEALTHY FOREST ENTERPRISE INCENTIVE
10 CERTIFICATION AND MEMORANDUM OF UNDERSTANDING WITH THE ARIZONA COMMERCE
11 AUTHORITY PURSUANT TO SECTION 41-1516.

12 2. THE TAXPAYER PROCESSES QUALIFYING FOREST PRODUCTS FROM A
13 QUALIFYING PROJECT FROM AND AFTER DECEMBER 31, 2020 AND BEFORE JANUARY 1,
14 2031.

15 3. THE FACILITY THAT PROCESSES QUALIFYING FOREST PRODUCTS IS
16 LOCATED WITHIN THIS STATE.

17 C. THE TAXPAYER IS ELIGIBLE FOR THE CREDIT FOR THE CALENDAR YEAR IN
18 WHICH THE QUALIFYING PROJECT PROCESSES QUALIFYING FOREST PRODUCTS PURSUANT
19 TO SUBSECTION B OF THIS SECTION.

20 D. IF THE ALLOWABLE CREDIT UNDER THIS SECTION EXCEEDS THE TAXES
21 OTHERWISE DUE UNDER THIS TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE
22 NO TAXES DUE UNDER THIS TITLE, THE TAXPAYER MAY CARRY FORWARD THE AMOUNT
23 OF THE CLAIM NOT USED TO OFFSET THE TAXES UNDER THIS TITLE FOR NOT MORE
24 THAN FIVE CONSECUTIVE TAXABLE YEARS' INCOME TAX LIABILITY.

25 E. THE CREDIT AUTHORIZED BY THIS SECTION IS BASED ON THE NUMBER OF
26 TONS OF QUALIFYING FOREST PRODUCTS THAT A TAXPAYER PROCESSES DURING A
27 CALENDAR YEAR. FOR A TAXPAYER THAT FILES ON A FISCAL YEAR BASIS, THE
28 CREDIT SHALL BE CLAIMED ON THE RETURN FOR THE TAXABLE YEAR IN WHICH THE
29 CALENDAR YEAR ENDS.

30 F. SUBJECT TO SUBSECTION H OF THIS SECTION, THE AMOUNT OF THE
31 CREDIT IS \$10,000 FOR THE FIRST TWENTY THOUSAND TONS AND \$5,000 FOR EVERY
32 TEN THOUSAND TONS THEREAFTER OF QUALIFYING FOREST PRODUCTS THE TAXPAYER
33 PROCESSES IN THE CALENDAR YEAR.

34 G. TO BE ELIGIBLE FOR THE CREDIT UNDER THIS SECTION, THE TAXPAYER
35 MUST APPLY TO THE DEPARTMENT, ON A FORM PRESCRIBED BY THE DEPARTMENT, FOR
36 CERTIFICATION OF THE CREDIT. THE DEPARTMENT SHALL ACCEPT APPLICATIONS
37 BEGINNING JANUARY 2 THROUGH JANUARY 31 OF THE YEAR FOLLOWING THE CALENDAR
38 YEAR FOR WHICH THE CREDIT IS BEING REQUESTED. THE APPLICATION SHALL
39 INCLUDE:

40 1. THE TAXPAYER'S NAME, ADDRESS AND SOCIAL SECURITY NUMBER OR
41 FEDERAL EMPLOYER IDENTIFICATION NUMBER.

42 2. THE LOCATION OF THE TAXPAYER'S FACILITY THAT PROCESSES
43 QUALIFYING FOREST PRODUCTS FOR WHICH THE CREDIT IS CLAIMED.

44 3. THE AMOUNT OF THE CREDIT THAT IS CLAIMED.

1 4. THE DATE THE TAXPAYER BEGAN PROCESSING COMMERCIALY MARKETABLE
2 AMOUNTS OF QUALIFYING FOREST PRODUCTS.

3 5. ANY ADDITIONAL INFORMATION THAT THE DEPARTMENT REQUIRES.

4 H. THE DEPARTMENT SHALL REVIEW EACH APPLICATION UNDER SUBSECTION G
5 OF THIS SECTION AND CERTIFY TO THE TAXPAYER THE AMOUNT OF THE CREDIT
6 AUTHORIZED. THE AMOUNT OF THE CREDIT FOR ANY CALENDAR YEAR MAY NOT EXCEED
7 \$500,000 PER TAXPAYER THAT PROCESSES QUALIFYING FOREST PRODUCTS. CREDITS
8 ARE ALLOWED UNDER THIS SECTION AND SECTION 43-1076.01 ON A FIRST-COME,
9 FIRST-SERVED BASIS. THE DEPARTMENT MAY NOT AUTHORIZE TAX CREDITS UNDER
10 THIS SECTION AND SECTION 43-1076.01 THAT EXCEED IN THE AGGREGATE A TOTAL
11 OF \$2,000,000 FOR ANY CALENDAR YEAR.

12 I. THE FIRST TIME A TAXPAYER SUBMITS A QUALIFIED APPLICATION UNDER
13 SUBSECTION G OF THIS SECTION, THE DEPARTMENT SHALL ADD THE TAXPAYER'S NAME
14 TO A CREDIT AUTHORIZATION LIST IN THE ORDER IN WHICH QUALIFIED
15 APPLICATIONS ARE FIRST RECEIVED BY THE DEPARTMENT ON BEHALF OF THE
16 TAXPAYER. A TAXPAYER'S POSITION ON THE CREDIT AUTHORIZATION LIST SHALL BE
17 DETERMINED IN THE FIRST YEAR THE TAXPAYER SUBMITS AN APPLICATION UNDER
18 SUBSECTION G OF THIS SECTION FOR PROCESSING QUALIFYING FOREST PRODUCTS.
19 THE TAXPAYER'S POSITION ON THE LIST SHALL REMAIN UNCHANGED FOR THE
20 REMAINDER OF THE PERIOD SPECIFIED IN SUBSECTION B, PARAGRAPH 2 OF THIS
21 SECTION OR UNTIL A YEAR IN WHICH THE TAXPAYER FAILS TO SUBMIT A TIMELY
22 APPLICATION UNDER SUBSECTION G OF THIS SECTION OR OTHERWISE FAILS TO
23 COMPLY WITH THIS SECTION. IF A TAXPAYER IS REMOVED FROM THE CREDIT
24 AUTHORIZATION LIST FOR PROCESSING QUALIFYING FOREST PRODUCTS, THE TAXPAYER
25 MAY ESTABLISH A NEW POSITION ON THE CREDIT AUTHORIZATION LIST IN A
26 SUBSEQUENT YEAR BY FILING A TIMELY APPLICATION FOR PROCESSING QUALIFYING
27 FOREST PRODUCTS THAT QUALIFIES FOR THE CREDIT.

28 J. IF AN APPLICATION IS RECEIVED THAT, IF AUTHORIZED, WOULD REQUIRE
29 THE DEPARTMENT TO EXCEED THE \$2,000,000 LIMIT, THE DEPARTMENT SHALL GRANT
30 THE APPLICANT ONLY THE REMAINING CREDIT AMOUNT THAT WOULD NOT EXCEED THE
31 \$2,000,000 LIMIT. AFTER THE DEPARTMENT AUTHORIZES \$2,000,000 IN TAX
32 CREDITS, THE DEPARTMENT SHALL DENY ANY SUBSEQUENT APPLICATIONS RECEIVED
33 FOR THAT CALENDAR YEAR. THE DEPARTMENT MAY NOT AUTHORIZE ANY ADDITIONAL
34 TAX CREDITS THAT EXCEED THE \$2,000,000 LIMIT EVEN IF THE AMOUNTS THAT HAVE
35 BEEN CERTIFIED TO ANY TAXPAYER WERE NOT CLAIMED OR A TAXPAYER OTHERWISE
36 FAILS TO MEET THE REQUIREMENTS TO CLAIM THE ADDITIONAL CREDIT.

37 K. CO-OWNERS OF A FACILITY THAT PROCESSES QUALIFYING FOREST
38 PRODUCTS, INCLUDING CORPORATE PARTNERS IN A PARTNERSHIP, MAY EACH CLAIM
39 THE PRO RATA SHARE OF THE CREDIT ALLOWED UNDER THIS SECTION BASED ON
40 OWNERSHIP INTEREST. THE TOTAL OF THE CREDITS ALLOWED ALL SUCH OWNERS THAT
41 PROCESS QUALIFYING FOREST PRODUCTS MAY NOT EXCEED THE AMOUNT THAT WOULD
42 HAVE BEEN ALLOWED FOR A SOLE OWNER.

1 L. THE DEPARTMENT SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS
2 AND PROCEDURES AS NECESSARY TO EFFECTUATE THE PURPOSES OF THIS SECTION.

3 M. FOR THE PURPOSES OF THIS SECTION:

4 1. "PROCESSED" OR "PROCESSING" MEANS ANY CHANGE IN THE PHYSICAL
5 STRUCTURE OF QUALIFYING FOREST PRODUCTS REMOVED FROM A QUALIFYING PROJECT
6 INTO A MARKETABLE COMMERCIAL PRODUCT OR COMPONENT OF A PRODUCT THAT HAS
7 COMMERCIAL VALUE TO A CONSUMER OR PURCHASER AND THAT IS READY TO BE USED
8 WITH OR WITHOUT FURTHER ALTERING ITS FORM.

9 2. "QUALIFYING FOREST PRODUCTS" MEANS QUALIFYING FOREST PRODUCTS AS
10 DEFINED IN SECTION 41-1516 THAT ARE SOURCED WITHIN THIS STATE.

11 3. "QUALIFYING PROJECT" HAS THE SAME MEANING PRESCRIBED IN SECTION
12 41-1516.

13 43-1163. Affordable housing tax credit

14 A. A TAXPAYER IS ALLOWED A CREDIT AGAINST THE TAXES IMPOSED BY THIS
15 TITLE IF THE ARIZONA DEPARTMENT OF HOUSING ISSUES AN ELIGIBILITY STATEMENT
16 FOR A QUALIFIED PROJECT PURSUANT TO SECTION 41-3954. THE AMOUNT OF THE
17 CREDIT:

18 1. IS EQUAL TO AT LEAST FIFTY PERCENT OF THE AMOUNT OF THE FEDERAL
19 LOW-INCOME HOUSING CREDIT FOR THE QUALIFIED PROJECT.

20 2. ON NOTICE TO THE DEPARTMENT OF REVENUE, MAY BE ALLOCATED AMONG
21 THE PARTNERS, MEMBERS OR SHAREHOLDERS, AS THEY MAY AGREE AMONG THEMSELVES
22 REGARDLESS OF THE SIZE OF THE TAXPAYER'S OWNERSHIP INTEREST. THE TOTAL OF
23 THE ALLOCATED CREDITS AMONG ALL PARTNERS, MEMBERS OR SHAREHOLDERS MAY NOT
24 EXCEED THE AMOUNT OF THE CREDIT APPROVED BY THE ARIZONA DEPARTMENT OF
25 HOUSING. THIS PARAGRAPH DOES NOT PROHIBIT A PARTNER, MEMBER OR
26 SHAREHOLDER FROM HOLDING AN INVESTMENT EXCLUSIVELY IN EITHER THE STATE
27 CREDITS OR FEDERAL CREDITS ALLOCATED TO THE QUALIFIED PROJECT.

28 B. TO CLAIM THE CREDIT UNDER THIS SECTION, THE TAXPAYER MUST SUBMIT
29 THE ELIGIBILITY STATEMENT PROVIDED BY THE ARIZONA DEPARTMENT OF HOUSING
30 UNDER SECTION 41-3954 TO THE DEPARTMENT OF REVENUE WITH THE TAXPAYER'S
31 INCOME TAX RETURN. A CREDIT UNDER THIS SECTION IS NOT ALLOWED UNTIL THE
32 TAXPAYER FURNISHES THE REQUIRED DOCUMENTATION.

33 C. IF THE AMOUNT OF THE CREDIT FOR A TAXABLE YEAR EXCEEDS THE
34 AMOUNT OF TAXES OTHERWISE DUE UNDER THIS TITLE ON THE CLAIMANT'S INCOME,
35 OR IF THERE ARE NO TAXES DUE UNDER THIS TITLE, THE TAXPAYER MAY CARRY THE
36 AMOUNT OF THE CLAIM NOT USED TO OFFSET THE TAXES UNDER THIS TITLE FORWARD
37 FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE YEARS' INCOME TAX LIABILITY.

38 D. IF ALL OR PART OF THE FEDERAL LOW-INCOME HOUSING TAX CREDIT WITH
39 RESPECT TO THE QUALIFIED PROJECT IS SUBJECT TO RECAPTURE UNDER SECTION 42
40 OF THE INTERNAL REVENUE CODE DURING THE FIRST TEN TAXABLE YEARS AFTER THE
41 PROJECT IS PLACED IN SERVICE, THE CREDIT UNDER THIS SECTION IS ALSO
42 SUBJECT TO RECAPTURE IN A PROPORTIONAL AMOUNT FROM ALL TAXPAYERS THAT
43 CLAIMED THE CREDIT. THE RECAPTURE IS CALCULATED BY INCREASING THE AMOUNT
44 OF TAXES IMPOSED IN THE FOLLOWING YEAR BY THE AMOUNT RECAPTURED.

1 E. THE DEPARTMENT OF REVENUE, WITH THE COOPERATION OF THE
2 DEPARTMENT OF INSURANCE AND FINANCIAL INSTITUTIONS AND THE ARIZONA
3 DEPARTMENT OF HOUSING, SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS
4 AND PROCEDURES AS NECESSARY TO ADMINISTER THIS SECTION.

5 Sec. 33. Delayed repeal

6 Section 43-1163, Arizona Revised Statutes, as added by this act, is
7 repealed from and after December 31, 2025.

8 Sec. 34. Section 43-1184, Arizona Revised Statutes, is amended to
9 read:

10 43-1184. Credit for contributions to school tuition
11 organization; displaced students; students with
12 disabilities

13 A. Beginning from and after June 30, 2009, a credit is allowed
14 against the taxes imposed by this title for the amount of voluntary cash
15 contributions made by the taxpayer during the taxable year to a school
16 tuition organization that is certified pursuant to chapter 15 of this
17 title at the time of donation.

18 B. The amount of the credit is the total amount of the taxpayer's
19 contributions for the taxable year under subsection A of this section and
20 is preapproved by the department of revenue pursuant to subsection D of
21 this section.

22 C. The department of revenue:

23 1. Shall not allow tax credits under this section and section
24 20-224.07 that exceed in the aggregate a combined total of ~~five million~~
25 ~~dollars~~ \$5,000,000 in any fiscal year THROUGH FISCAL YEAR 2020-2021.
26 BEGINNING IN FISCAL YEAR 2021-2022, THE AGGREGATE DOLLAR AMOUNT OF THE TAX
27 CREDITS ALLOWED IS \$6,000,000 IN ANY FISCAL YEAR.

28 2. Shall preapprove tax credits under this section and section
29 20-224.07 subject to subsection D of this section.

30 3. Shall allow the tax credits under this section and section
31 20-224.07 on a ~~first come, first served~~ FIRST-COME, FIRST-SERVED basis.

32 D. For the purposes of subsection C, paragraph 2 of this section,
33 before making a contribution to a school tuition organization, the
34 taxpayer under this title or title 20 must notify the school tuition
35 organization of the total amount of contributions that the taxpayer
36 intends to make to the school tuition organization. Before accepting the
37 contribution, the school tuition organization shall request preapproval
38 from the department of revenue for the taxpayer's intended contribution
39 amount. The department of revenue shall preapprove or deny the requested
40 amount within twenty days after receiving the request from the school
41 tuition organization. If the department of revenue preapproves the
42 request, the school tuition organization shall immediately notify the
43 taxpayer that the requested amount was preapproved by the department of
44 revenue. In order to receive a tax credit under this subsection, the
45 taxpayer shall make the contribution to the school tuition organization

1 within twenty days after receiving notice from the school tuition
 2 organization that the requested amount was preapproved. If the school
 3 tuition organization does not receive the preapproved contribution from
 4 the taxpayer within the required twenty days, the school tuition
 5 organization shall immediately notify the department of revenue and the
 6 department shall no longer include this preapproved contribution amount
 7 when calculating the limit prescribed in subsection C, paragraph 1 of this
 8 section.

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

14 F. Co-owners of a business, including corporate partners in a
 15 partnership and stockholders of an S corporation as defined in section
 16 1361 of the internal revenue code, may each claim only the pro rata share
 17 of the credit allowed under this section based on the ownership interest.
 18 The total of the credits allowed all such owners may not exceed the amount
 19 that would have been allowed a sole owner.

20 G. The credit allowed by this section is in lieu of any deduction
 21 pursuant to section 170 of the internal revenue code and taken for state
 22 tax purposes.

23 H. A taxpayer shall not claim a credit under this section and also
 24 under section 43-1183 with respect to the same contribution.

25 I. The tax credit is not allowed if the taxpayer designates the
 26 taxpayer's contribution to the school tuition organization for the direct
 27 benefit of any specific student.

28 J. The department of revenue shall adopt rules necessary ~~for the~~
 29 ~~administration of~~ TO ADMINISTER this section.

30 Sec. 35. Section 43-1504, Arizona Revised Statutes, is amended to
 31 read:

32 43-1504. Special provisions; corporate donations for
 33 low-income scholarships; rules

34 A. A school tuition organization that receives contributions from a
 35 corporation for the purposes of section 20-224.06 or 43-1183 must use at
 36 least ninety percent of those contributions to provide educational
 37 scholarships or tuition grants only to children whose family income does
 38 not exceed one hundred eighty-five percent of the income limit required to
 39 qualify a child for ~~reduced-price~~ REDUCED-PRICE lunches under the national
 40 school lunch and child nutrition acts (42 United States Code sections 1751
 41 through ~~1785~~ 1793) and to whom any of the following applies:

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

1 one full semester and transferred from a governmental school to a
2 qualified school.

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

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

7 4. ARE HOMESCHOOLED BEFORE ENROLLING IN A QUALIFIED SCHOOL.

8 5. MOVED TO THIS STATE FROM OUT OF STATE BEFORE ENROLLING IN A
9 QUALIFIED SCHOOL.

10 6. PARTICIPATED IN AN ARIZONA EMPOWERMENT SCHOLARSHIP ACCOUNT AND
11 DID NOT RENEW THE ACCOUNT OR ACCEPT THE SCHOLARSHIP IN ORDER TO ACCEPT A
12 SCHOLARSHIP OR TUITION GRANT UNDER THIS SECTION.

13 ~~4.~~ 7. Received an educational scholarship or tuition grant under
14 paragraph 1, 2, ~~or~~ 3, 4, 5 OR 6 of this subsection or chapter 16, article
15 1 of this title if the children continue to attend a qualified school in a
16 subsequent year.

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

21 C. In ~~2006~~ 2021, a school tuition organization shall not issue an
22 educational scholarship or a tuition grant for the purposes of section
23 20-224.06 or 43-1183 in an amount that exceeds ~~\$4,200~~ \$5,600 for students
24 WHO ARE in a kindergarten program, a preschool program that offers
25 services to students with disabilities or grades one through eight or
26 ~~\$5,500~~ \$7,500 for students WHO ARE in grades nine through twelve. In each
27 year after ~~2006~~ 2021, the ~~limitation~~ LIMIT amount for a scholarship or a
28 grant under this subsection shall be increased by ~~\$100~~ \$200.

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

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

40 F. The department of revenue, with the cooperation of the
41 department of insurance and financial institutions, shall adopt rules and
42 publish and prescribe forms and procedures necessary ~~for the~~
43 ~~administration of~~ TO ADMINISTER this section.

1 Sec. 36. Section 43-1603, Arizona Revised Statutes, is amended to
2 read:

3 43-1603. Operational requirements for school tuition
4 organizations; notice; qualified schools

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

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

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

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

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

20 4. Shall not allow donors to designate student beneficiaries as a
21 condition of any contribution to the organization, or facilitate,
22 encourage or knowingly ~~permit~~ ALLOW the exchange of beneficiary student
23 designations in violation of section 43-1089, subsection F, section
24 43-1089.03, subsection F and section 43-1089.04, subsection E.

25 5. Shall include on the organization's website, if one exists, the
26 percentage and total dollar amount of educational scholarships and tuition
27 grants awarded during the previous fiscal year to:

28 (a) Students whose family income meets the economic eligibility
29 requirements established under the national school lunch and child
30 nutrition acts (42 United States Code sections 1751 through 1793) for free
31 or reduced-price lunches.

32 (b) Students whose family income exceeds the threshold prescribed
33 by subdivision (a) of this paragraph but does not exceed one hundred
34 eighty-five percent of the economic eligibility requirements established
35 under the national school lunch and child nutrition acts (42 United States
36 Code sections 1751 through 1793) for free or reduced-price lunches.

37 6. Must not award educational scholarships or tuition grants to
38 students who are simultaneously enrolled in a district school or charter
39 school and a qualified school.

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

Notice

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

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

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

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

2. Shall consider the financial need of applicants.

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

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

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

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

4. ARE HOMESCHOOLED BEFORE ENROLLING IN A QUALIFIED SCHOOL.

5. MOVED TO THIS STATE FROM OUT OF STATE BEFORE ENROLLING IN A QUALIFIED SCHOOL.

6. PARTICIPATED IN AN ARIZONA EMPOWERMENT SCHOLARSHIP ACCOUNT AND DID NOT RENEW THE ACCOUNT OR ACCEPT THE SCHOLARSHIP IN ORDER TO ACCEPT A SCHOLARSHIP OR TUITION GRANT UNDER THIS SECTION.

~~4.~~ 7. Received an educational scholarship or tuition grant under paragraph 1, 2, ~~or~~ 3, 4, 5 OR 6 of this subsection or under chapter 15 of this title if the student continues to attend a qualified school in a subsequent year.

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

1 G. If an individual educational scholarship or tuition grant
2 exceeds the school's tuition, the amount in excess shall be returned to
3 the school tuition organization that made the award or grant. The school
4 tuition organization may allocate the returned monies as a multiyear award
5 for that student and report the award pursuant to section 43-1604,
6 subsection A, paragraph 5, subdivision (b) or may allocate the returned
7 monies for educational scholarships or tuition grants for other students.

8 Sec. 37. Section 48-807, Arizona Revised Statutes, is amended to
9 read:

10 48-807. County fire district assistance tax; annual budget;
11 override; monthly financial reports

12 A. The board of supervisors of a county shall levy, at the time of
13 levying other property taxes, a county fire district assistance tax on the
14 taxable property in the county of not more than \$.10 per \$100 of assessed
15 valuation. The tax levy provided for in this subsection shall be a levy
16 of secondary property taxes and shall not be subject to title 42, chapter
17 17, article 2. The county treasurer shall pay to each fire district,
18 including a fire district formed pursuant to section 48-851, in the county
19 from the proceeds of the tax an amount equal to twenty percent of the
20 property tax levy adopted by the district for the fiscal year in which the
21 tax will be levied, except that:

22 1. The amount of assistance from the county to a fire district
23 shall be reduced as follows:

24 (a) Through the fiscal year that ends June 30, 2012, by the dollar
25 amount that the fire district receives from the fire district assistance
26 tax that exceeds \$300,000 from and after June 30 of each fiscal year.

27 (b) Beginning with the fiscal year that starts July 1, 2012, by the
28 dollar amount that the fire district receives from the fire district
29 assistance tax that exceeds \$400,000 from and after June 30 of each fiscal
30 year, without regard to whether the district is located in more than one
31 county.

32 (c) Except as provided in paragraph 2 of this subsection, if the
33 total amount to be paid to all districts in the county under this
34 paragraph exceeds the amount to be raised by the levy of \$.10 per \$100
35 assessed valuation, then the county treasurer shall pay an amount less
36 than twenty percent of the property tax levy of each district. The amount
37 to be paid by the county treasurer to each district shall be determined by
38 multiplying the proceeds of the county fire district assistance tax
39 against the proportion that twenty percent of the property tax levy of
40 each district bears to the total of twenty percent of the property tax
41 levies of all fire districts in the county.

42 2. For fiscal years beginning from and after July 1, 1992, the
43 amount of assistance from the county to a fire district shall not be less
44 than the assistance provided from and after June 30, 1991 through June 30,
45 1992, if, for the fiscal year in which the tax will be levied, the

1 district levies a tax, in addition to any tax levied under section 48-806,
2 of \$3 per \$100 of assessed valuation and the assessed valuation is at
3 least ninety percent of the assessed valuation for the 1991 tax year.
4 This paragraph does not apply to fire districts subject to paragraph 1,
5 subdivision (a) or (b) of this subsection.

6 B. For the purpose of subsection A of this section, the property
7 tax levy of the fire district shall include in lieu contributions pursuant
8 to chapter 1, article 8 of this title but shall not include property tax
9 levies to be applied to the payment of principal and interest on bonds
10 issued pursuant to section 48-806.

11 C. Beginning with the fiscal year that starts July 1, 2016, a
12 consolidated district shall not receive more than the maximum allowable
13 amount in fire district assistance tax monies as prescribed in subsection
14 D of this section, without regard to whether the consolidated district is
15 located in more than one county.

16 D. Beginning with the fiscal year that starts July 1, 2016, for any
17 two or more fire districts that merge or consolidate to form a
18 consolidated district on or after July 1, 2014, the consolidated district
19 may continue to receive monies in an amount not to exceed the sum of the
20 average of the amount of fire district assistance tax monies received by
21 each of the consolidating or merging districts in the five fiscal years
22 immediately preceding the merger or consolidation as prescribed in
23 subsection A of this section, without regard to whether the consolidated
24 district is located in more than one county.

25 E. For a consolidated district that is formed in any fiscal year
26 beginning July 1, 2014 or later and that is receiving fire district
27 assistance tax monies that are reduced as prescribed in subsection A,
28 paragraph 1, subdivision (c) of this section, if the total amount of fire
29 district assistance tax monies that would be paid to all districts in the
30 county pursuant to subsection A of this section is less than the amount of
31 monies that would be raised by the levy of \$.10 per \$100 assessed
32 valuation, the county treasurer shall pay the consolidated district the
33 amount of fire district assistance tax monies prescribed by subsection A
34 of this section that would have been paid to the districts at the time the
35 districts merged or consolidated.

36 F. The board, based on the budget submitted by the district, shall
37 levy, in addition to any tax levied as provided in section 48-806, a tax
38 not to exceed \$3.25 per \$100 of assessed valuation THROUGH TAX YEAR 2021,
39 \$3.375 PER \$100 OF ASSESSED VALUATION FOR TAX YEAR 2022 AND \$3.50 PER \$100
40 OF ASSESSED VALUATION FOR TAX YEAR 2023 AND EACH TAX YEAR THEREAFTER, or
41 the amount of the levy in the preceding tax year multiplied by 1.08,
42 whichever levy is less, and minus any amounts required to reduce the levy
43 pursuant to subsection I of this section, against all property situated
44 within the district boundaries and appearing on the last assessment roll.
45 The levy shall be made and the taxes collected in the manner, at the time

1 and by the officers provided by law for the collection of general county
2 taxes.

3 G. The qualified electors of the district, voting in an election as
4 prescribed by subsection H of this section, may authorize the board to
5 levy a tax exceeding the limits prescribed by subsection F of this section
6 under one, but not both, of the following options:

7 1. The electors may authorize a permanent override allowing annual
8 levies without reference to the levy in the preceding tax year, but
9 remaining subject to the tax rate limit of \$3.25 per \$100 of assessed
10 valuation THROUGH TAX YEAR 2021, \$3.375 PER \$100 OF ASSESSED VALUATION FOR
11 TAX YEAR 2022 AND \$3.50 PER \$100 OF ASSESSED VALUATION FOR TAX YEAR 2023
12 AND EACH TAX YEAR THEREAFTER. An election for the purposes of this
13 paragraph must be held at a regularly scheduled general election held on
14 the first Tuesday following the first Monday in November as prescribed by
15 section 16-204, subsection F.

16 2. If the net assessed valuation of all property in the district
17 declines by a combined total of twenty percent or more over two
18 consecutive valuation years, the electors voting at the next regularly
19 scheduled general election held on the first Tuesday following the first
20 Monday in November as prescribed by section 16-204, subsection F may
21 authorize an override for five consecutive tax years allowing annual
22 levies that are exempt from the tax rate limit of \$3.25 THROUGH TAX YEAR
23 2021, \$3.375 FOR TAX YEAR 2022 AND \$3.50 FOR TAX YEAR 2023 AND EACH TAX
24 YEAR THEREAFTER, but subject to an annual levy limit of the amount of the
25 levy in the preceding tax year multiplied by 1.05. After the fifth tax
26 year, the district is again subject to the limits prescribed by subsection
27 F of this section, computed by multiplying the levy beginning in the year
28 preceding the override by 1.08 for each year through the current tax year.

29 H. The call for an override election held for the purposes of
30 subsection G of this section must state:

31 1. The purpose for requesting additional secondary property tax
32 revenue for the district.

33 2. If the voters approve the levy:

34 (a) The maximum dollar amount of secondary property tax that may be
35 collected in the first year compared to the existing maximum secondary
36 property tax levy prescribed in subsection F of this section.

37 (b) The estimated secondary property tax rate to fund the proposed
38 levy under subdivision (a) of this paragraph in the first tax year
39 compared to the secondary property tax rate levied in the current year.

40 I. If the district annexes additional territory, the limit under
41 subsection F of this section shall be adjusted by applying the district's
42 tax rate to the assessed valuation of the annexed property in the
43 preceding tax year. If districts are merged or consolidated under this
44 chapter, the limitation under this subsection in the first year after the
45 districts are merged or consolidated is the total of the levies of the

1 merged or consolidated districts in the preceding tax year multiplied by
2 1.08 or the amount of the levies allowed by the maximum rate prescribed by
3 subsection F of this section, whichever is less.

4 J. The district shall maintain any property tax revenues collected
5 in excess of the sum of the amounts of taxes collectible pursuant to
6 section 42-17054 and the allowable levy determined under subsection F of
7 this section in a separate fund and used to reduce the property tax levy
8 in the following tax year.

9 K. The levy limit under this section is considered to be increased
10 each year to the maximum limit permissible under subsection F of this
11 section regardless of whether the district actually levies taxes up to the
12 maximum permissible amount in that year.

13 L. The county treasurer shall keep the money received from taxes
14 levied pursuant to subsection F of this section in a separate fund known
15 as the "fire district general fund" of the district for which collected.
16 Any surplus remaining in the fire district general fund at the end of the
17 fiscal year shall be credited to the fire district general fund of the
18 district for which it was collected for the succeeding fiscal year and
19 after subtraction of accounts payable and encumbrances, shall be used to
20 reduce the property tax levy in the following tax year.

21 M. A fire district may maintain separate accounts with a financial
22 institution that is authorized to do business in this state for the
23 purpose of operating a payroll account or for holding special revenues or
24 ambulance revenues, or both, as necessary to fulfill the district's
25 fiduciary responsibilities.

26 N. A fire district, through the county treasurer, shall establish
27 the relevant governmental funds necessary for the proper management and
28 fiscal accountability of district monies from property taxes, grants,
29 contributions and donations, as defined by the government accounting
30 standards board. Unless the monies received are legally restricted by
31 contract, agreement or law, those monies may be transferred between fund
32 accounts according to the original or amended budget of the fire district.

33 O. A fire district shall reconcile all balance sheet accounts for
34 accounts for each calendar month of the fiscal year within thirty days
35 after the end of that calendar month. The fire district board shall
36 review the reconciled balance sheet accounts monthly, except that for a
37 fire district that is governed by a three-member board, the board may
38 review the reconciled balance sheet accounts every two months.

39 P. A fire district shall produce monthly financial reports to
40 include a register of checks, substitute checks, warrants and deposits, a
41 record of electronic funds transfers, a statement of financial activities
42 and a statement of net assets for each calendar month. A fire district
43 shall produce a cash flow projection report for each fiscal year. The
44 cash flow projection report shall be updated monthly with the actual
45 revenues and expenditures from the preceding month. Each month, the fire

1 district board shall review the financial reports, the updated cash flow
2 projections report and all month-end fund statements and reports of the
3 preceding month to include those reports provided by the county treasurer
4 and each of the financial institutions in which the district maintains an
5 account, except that for a fire district that is governed by a
6 three-member board, the board may review the reports and statements
7 prescribed by this subsection every two months. Any financial report or
8 cash flow projection report that would indicate that the district is
9 likely to violate section 48-805.02, subsection D, paragraph 1 or that
10 would indicate an adverse impact on the ongoing operations or liquidity of
11 the district shall be reported by the fire district board chairman in
12 writing and delivered by certified mail to the county treasurer and the
13 county board of supervisors within ten days after the discovery.

14 Q. Within sixty days after submittal of a written report pursuant
15 to subsection P of this section by the fire district board chairman to the
16 county treasurer and the county board of supervisors that states the fire
17 district is likely to violate section 48-805.02, subsection D, paragraph 1
18 or that indicates an adverse impact on the ongoing operations or liquidity
19 of the fire district, the district shall complete a study of merger,
20 consolidation or joint operating alternatives. The fire district shall
21 hold a special public meeting as prescribed in section 48-805.02,
22 subsection D to present the findings of the study. Within five days after
23 the special public meeting, the fire district board chairman shall submit
24 the findings of the study to the county treasurer and county board of
25 supervisors.

26 R. Notwithstanding section 11-605, a fire district may register or
27 record warrants, substitute checks or electronic funds transfers only if
28 separate accounts are maintained by the county treasurer for each
29 governmental fund of a fire district. Warrants, substitute checks or
30 electronic funds transfers may be registered or recorded only on the
31 maintenance and operation account, the unrestricted capital outlay account
32 and the special revenue account, and only if the total cash balance of all
33 three accounts is insufficient to pay the warrants, substitute checks or
34 electronic funds transfers and after any revolving line of credit has been
35 expended as prescribed in section 11-635.

36 S. When a fire district has adopted a budget and the board of
37 supervisors has levied a fire district tax as provided in subsection F of
38 this section and the district has insufficient money in the district's
39 general fund with the county treasurer to operate the district, the
40 chairman of the board, on or after August 1 of each year, may draw
41 warrants, substitute checks or electronic funds transfers for the purposes
42 prescribed in section 48-805 on the county treasurer, payable on
43 November 1 of that year or on April 1 of the succeeding year. The
44 aggregate amounts of the warrants, substitute checks or electronic funds
45 transfers may not exceed ninety percent of the taxes levied by the county

1 for the district's current fiscal year. If the treasurer cannot pay a
2 warrant, substitute check or electronic funds transfer for lack of funds
3 in the fire district general fund, the warrant or substitute check shall
4 be endorsed and registered, or the electronic funds transfer shall be
5 recorded, and the warrant, substitute check or electronic funds transfer
6 shall bear interest and be redeemed as provided by law for county
7 warrants, substitute checks or electronic funds transfers, except that the
8 warrants, substitute checks or electronic funds transfers are payable only
9 from the fire district general fund.

10 Sec. 38. Exemption from rulemaking

11 Notwithstanding any other law, for the purposes of section 43-1011,
12 subsection E, Arizona Revised Statutes, as added by this act, the
13 department of revenue is exempt from the rulemaking requirements of title
14 41, chapter 6, Arizona Revised Statutes, for one year after the effective
15 date of this act.

16 Sec. 39. Refunds

17 Any claim for refund of transaction privilege or use tax based on
18 the retroactive application of section 42-5061, subsection B, paragraph
19 18, Arizona Revised Statutes, as amended by this act, and section 42-5159,
20 subsection B, paragraph 18, Arizona Revised Statutes, as amended by this
21 act, shall be submitted to the department of revenue on or before December
22 31, 2021, pursuant to section 42-1118, Arizona Revised Statutes, and is
23 subject to the following:

24 1. A failure to file such a claim on or before December 31, 2021
25 constitutes a waiver of the claim for refund.

26 2. The aggregate refund amount may not exceed \$10,000 for such
27 claims filed from and after December 31, 2020 through December 31, 2021.

28 3. If the aggregate refund amount of such claims ultimately
29 determined to be correct is more than \$10,000, the department of revenue
30 shall reduce each claim proportionally so that the aggregate refund amount
31 equals \$10,000.

32 4. Interest is not allowed and may not be compounded on any
33 refundable amount of such claims if paid before July 1, 2022, but if the
34 amount cannot be determined or paid until after June 30, 2022, interest
35 accrues after that date pursuant to section 42-1123, Arizona Revised
36 Statutes.

37 5. Any refund claim that is filed before January 1, 2021 or that is
38 not related to the changes under this act is not subject to the \$10,000
39 aggregate refund amount.

40 Sec. 40. Implementation and administration

41 The Arizona department of housing shall implement and administer
42 section 41-3954, Arizona Revised Statutes, as added by this act, for
43 Arizona's 2022 qualified allocation plan for the low-income housing tax
44 credit and for future qualified allocation plans for the low-income
45 housing tax credits authorized by this act.

1 Sec. 41. Urban revenue sharing; fiscal year 2023-2024

2 Notwithstanding section 43-206, Arizona Revised Statutes, for fiscal
3 year 2023-2024, the urban revenue sharing fund established by section
4 43-206, Arizona Revised Statutes, shall consist of the sum of the
5 following amounts:

6 1. An amount equal to fifteen percent of the net proceeds of the
7 state income taxes for fiscal year 2021-2022.

8 2. A positive amount equal to fifteen percent of the reduction in
9 the net proceeds of the state income tax pursuant to section 43-1011,
10 subsection E, Arizona Revised Statutes, as added by this act, for fiscal
11 year 2021-2022.

12 Sec. 42. Renewable energy production tax credit; calendar
13 year 2021; application deadline; retroactivity

14 A. Notwithstanding any other law, for calendar year 2021, to be
15 eligible for the renewable energy production tax credit under section
16 43-1083.02, Arizona Revised Statutes, the taxpayer must apply to the
17 department of revenue before February 7 of the year following the calendar
18 year for which the credit is being requested.

19 B. This section applies retroactively to from and after January 1,
20 2021.

21 Sec. 43. Purpose

22 Pursuant to section 43-223, Arizona Revised Statutes, the
23 legislature enacts the following:

24 1. Sections 43-1076.01 and 43-1162, Arizona Revised Statutes, as
25 added by this act, to encourage the existing forest product industry to
26 increase its capacity and invest in additional forest processing
27 infrastructure and to provide incentives for new industry to locate in
28 Arizona to increase the pace and scale of forest restoration in support of
29 sound forest management and watershed protection.

30 2. Sections 43-1075 and 43-1163, Arizona Revised Statutes, as added
31 by this act, to support the construction of new affordable housing
32 projects in this state.

33 Sec. 44. Retroactivity

34 A. Section 42-5159, Arizona Revised Statutes, as amended by this
35 act, and section 42-5061, as amended by Laws 2019, chapter 273, section 7
36 and chapter 288, section 1 and this act, apply retroactively to taxable
37 periods beginning from and after December 31, 2015.

38 B. Section 43-1122, Arizona Revised Statutes, as amended by this
39 act, applies retroactively to taxable years beginning from and after
40 December 31, 2017.

41 C. Section 43-1022, Arizona Revised Statutes, as amended by this
42 act, sections 43-1076.01 and 43-1162, Arizona Revised Statutes, as added
43 by this act, and sections 43-1504 and 43-1603, Arizona Revised Statutes,
44 as amended by this act, apply retroactively to taxable years beginning
45 from and after December 31, 2020.

1 D. Section 43-1184, Arizona Revised Statutes, as amended by this
2 act, applies retroactively to from and after June 30, 2021.

3 Sec. 45. Saving clause

4 The repeal of sections 20-224.04, 41-3954, 43-225, 43-1075 and
5 43-1163, Arizona Revised Statutes, by this act does not:

6 1. Limit or impair the issuance of premium tax credits or income
7 tax credits for qualified projects that receive a reservation from the
8 Arizona department of housing pursuant to section 41-3954, Arizona Revised
9 Statutes, as added by this act, before December 31, 2025 or a taxpayer's
10 ability to redeem such tax credits in accordance with sections 20-224.04,
11 41-3954, 43-1075 and 43-1163, Arizona Revised Statutes, as added by this
12 act.

13 2. Affect any act done or right accruing or accrued or any suit or
14 proceeding had or commenced in any civil cause of action before the
15 repeal. All rights and liabilities under such acts continue and may be
16 enforced in the same manner as allowed before the repeal.

17 Sec. 46. Conditional enactment; retroactivity

18 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2019,
19 chapter 273, section 8 and chapter 288, section 2 and this act, becomes
20 effective on the date prescribed by Laws 2018, chapter 263, section 5 and
21 applies retroactively to taxable periods beginning from and after December
22 31, 2015, but only on the occurrence of the condition prescribed by Laws
23 2018, chapter 263, section 5.

24 Sec. 47. Conditional enactment; retroactivity; notice

25 A. Sections 23-622, 23-771, 23-779 and 23-780, Arizona Revised
26 Statutes, as amended by this act, do not become effective unless both of
27 the following requirements are met on or after July 1, 2022:

28 1. The unemployment rate in the prior calendar quarter, as defined
29 in section 23-780, Arizona Revised Statutes, as amended by this act, is
30 five percent or less.

31 2. The average unemployment tax rate in this state for the next
32 calendar year, as calculated by the department of economic security, is
33 1.4 percent or less.

34 B. The director of the department of economic security shall notify
35 the director of the Arizona legislative council in writing on or before
36 December 31, 2027 either:

37 1. Of the date on which the condition was met.

38 2. That the condition was not met.