

REFERENCE TITLE: **income tax credits; repeal**

State of Arizona
House of Representatives
Fifty-fifth Legislature
Second Regular Session
2022

HB 2464

Introduced by
Representatives Cano: Butler, Dalessandro, Hernandez M, Liguori, Senator
Gonzales

AN ACT

AMENDING SECTIONS 41-1512, 41-1516, 43-222 AND 43-1021, ARIZONA REVISED STATUTES; REPEALING SECTIONS 43-1076 AND 43-1081.01, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1084, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 41-1512, Arizona Revised Statutes, is amended to
3 read:

4 41-1512. Qualified facility income tax credits;
5 qualification; definitions

6 A. For taxable years beginning from and after December 31, 2012,
7 income tax credits are allowed for expanding or locating a qualified
8 facility in this state pursuant to sections 43-1083.03 and 43-1164.04.
9 Only capital investments in a qualified facility that are made not more
10 than thirty-six months before submitting an application for preapproval
11 are included in the computation of the credit.

12 B. To be eligible for the income tax credits, a taxpayer must apply
13 to the authority, on a form prescribed by the authority, for preapproval
14 of the business as qualifying for the credits. The application must
15 include:

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

18 2. The name, address, telephone number and email address of a
19 contact person for the applicant.

20 3. The address of the site where the qualified facility will be
21 located.

22 4. A detailed description of the qualified facility and fixed
23 capital assets.

24 5. An estimate of the capital investment and number of employment
25 positions with job duties associated with the qualified facility,
26 including:

27 (a) A schedule of qualifying investments.

28 (b) A list of full-time employment positions, the estimated number
29 of employees to be hired for the positions each year during the first five
30 years of operation and the annual wages for each position, calculated
31 without employee-related benefits.

32 6. A nonrefundable processing fee in an amount determined by the
33 authority.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

? Either:

(a) If the

(a) If the total qualifying investment is less than \$2,000,000,000, \$200,000 for each net new full-time employment position projected by the applicant that has job duties associated with a qualified facility.

(b) If the total qualifying investment is \$2,000,000,000 or more, \$300,000 for each net new full-time employment position projected by the applicant that has job duties associated with a qualified facility.

1 G. Beginning with income tax credits allocated for 2013, an
2 approved credit:

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

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

7 H. The authority shall establish a process for qualifying and
8 preapproving applicants for the income tax credits. The authority shall
9 not preapprove applicants as qualifying for credits under this section for
10 any taxable year beginning from and after December 31, 2030. Preapproval
11 is based on:

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

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

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

22 J. The authority shall not preapprove income tax credits under this
23 section that combined would exceed \$125,000,000 in any calendar year,
24 except as provided by this subsection and subsection K of this section. A
25 preapproved amount applies against the dollar limit for the year in which
26 the application was submitted regardless of whether the initial
27 preapproval period extends into the following year or years. The
28 authority shall not preapprove income tax credits under this section for
29 any taxpayer in excess of \$30,000,000 in any calendar year.

30 K. The authority shall reallocate the amount of income tax credits
31 that are voluntarily relinquished under subsection L of this section, that
32 lapse under subsection M of this section or that lapse under subsection P
33 of this section. The reallocation shall be to other businesses that
34 applied under this section in the original credit year based on priority
35 placement. Once reallocated, the amount of the credit applies against the
36 dollar limit of the original credit year regardless of the year in which
37 the reallocation occurs.

38 L. A taxpayer may voluntarily relinquish unused credit amounts in
39 writing to the authority.

40 M. Preapproval under this section lapses, the application is void
41 and the amount of the preapproved income tax credits does not apply
42 against the dollar limit prescribed by subsection J of this section if,
43 within twelve months after preapproval, the business fails to provide to
44 the authority documentation of its expenditure of \$250,000 in qualifying
45 investment or, if the period over which the qualifying investment will be

1 made exceeds twelve months, documentation of additional expenditures as
2 required in this subsection for each twelve-month period.

3 N. After October 31 of each year, if the authority has preapproved
4 the maximum calendar year income tax credit amount pursuant to subsection
5 J of this section, the authority may accept initial applications for the
6 next calendar year, but the preapproval of any application pursuant to
7 this subsection shall not be effective before the first business day of
8 the following calendar year.

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

33 P. When the qualified facility begins operations, a business that
34 was preapproved for income tax credits under this section shall apply to
35 the authority in writing for postapproval of the credits and submit
36 documentation certifying the total amount and dates of the qualifying
37 investments and identifying the fixed capital assets associated with the
38 qualified facility incurred after June 30, 2012 through the date of
39 application for postapproval. For taxable years beginning from and after
40 December 31, 2012, the authority shall provide postapproval to a business
41 that has met the eligibility requirements of this section and shall notify
42 the department of revenue that the business may claim an income tax credit
43 pursuant to section 43-1083.03 or 43-1164.04. If the amount of qualifying
44 investment actually spent is less than the amount preapproved for income
45 tax credits, the preapproved amount not incurred lapses and does not apply

1 against the dollar limit prescribed by subsection J of this section for
2 that year. The department of revenue shall not allow an income tax credit
3 under section 43-1083.03 or 43-1164.04 that exceeds the amount of the
4 postapproval for the project under this subsection. For the purposes of
5 this subsection, "begins operations" means the qualified facility opens
6 for public business.

7 Q. The authority may rescind an applicant's postapproval if the
8 business no longer meets the terms and conditions required for qualifying
9 for the credit. The authority may give special consideration, or allow
10 temporary exemption from recapture of the credit, in the case of
11 extraordinary hardship due to factors beyond the control of the qualifying
12 business.

13 R. If the authority rescinds an applicant's preapproval or
14 postapproval under subsection Q of this section, the authority shall
15 notify the department of revenue of the action and the conditions of
16 noncompliance. If the department of revenue obtains information
17 indicating a possible failure to qualify and comply, the department shall
18 provide that information to the authority. The department of revenue may
19 require the business to file appropriate amended tax returns reflecting
20 any recapture of the credit under section 43-1083.03 or 43-1164.04.

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

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

34 U. Any information gathered from a business for the purposes of
35 this section is considered to be confidential taxpayer information and
36 shall be disclosed only as provided in section 42-2003, subsection B,
37 paragraph 12, except that the authority shall publish the following
38 information in its annual report:

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

41 2. The amount of income tax credits postapproved with respect to
42 each qualifying investment.

43 V. The authority shall:

44 1. Keep annual records of the information provided on applications
45 for qualified facilities. These records shall reflect a percentage

1 comparison of the annual amount of monies credited to qualified facilities
2 to the estimated amount of monies spent in this state in the form of
3 qualifying investments.

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

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

10 W. The authority shall adopt rules and prescribe forms and
11 procedures as necessary for the purposes of this section. The authority
12 and the department of revenue shall collaborate in adopting rules as
13 necessary to avoid duplication and inconsistencies while accomplishing the
14 intent and purposes of this section.

15 X. ON OR BEFORE MARCH 1 EACH YEAR, EACH QUALIFIED FACILITY SHALL
16 REPORT TO THE AUTHORITY ALL OF THE FOLLOWING:

17 1. THE NUMBER OF FULL-TIME EMPLOYEES THE QUALIFIED FACILITY HIRED
18 IN THIS STATE IN THE PRECEDING CALENDAR YEAR.

19 2. THE TOTAL CAPITAL EXPENDITURES THE QUALIFIED FACILITY INVESTED
20 IN THIS STATE AS A RESULT OF THE TAX CREDIT FOR QUALIFIED FACILITIES
21 ALLOWED UNDER SECTION 43-1083.03 OR 43-1164.04.

22 Y. ON OR BEFORE MAY 1 EACH YEAR, THE AUTHORITY SHALL REPORT TO THE
23 JOINT LEGISLATIVE BUDGET COMMITTEE ALL OF THE FOLLOWING:

24 1. THE NUMBER OF FULL-TIME EMPLOYEES EACH QUALIFIED FACILITY HIRED
25 IN THIS STATE IN THE PRECEDING CALENDAR YEAR.

26 2. THE TOTAL CAPITAL EXPENDITURES EACH QUALIFIED FACILITY INVESTED
27 IN THIS STATE AS A RESULT OF THE TAX CREDIT FOR QUALIFIED FACILITIES
28 ALLOWED UNDER SECTION 43-1083.03 OR 43-1164.04.

29 ~~Z.~~ For the purposes of this section:

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

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

38 3. "Headquarters" means a principal central administrative office
39 where primary headquarters related functions and services are performed,
40 including financial, personnel, administrative, legal, planning and
41 similar business functions.

42 4. "Manufacturing" means fabricating, producing or manufacturing
43 raw or prepared materials into usable products, imparting new forms,
44 qualities, properties and combinations. Manufacturing does not include
45 generating electricity.

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

- 4 (a) Qualified manufacturing.
- 5 (b) Qualified headquarters.
- 6 (c) Qualified research.

7 6. "Qualified headquarters" means a global, national or regional
8 headquarters for a taxpayer that derives at least sixty-five percent of
9 its revenue from out-of-state sales.

10 7. "Qualified manufacturing" means manufacturing tangible products
11 in this state if at least sixty-five percent of the product is at least
12 one of the following:

- 13 (a) Directly sold out of state.

14 (b) Directly sold to one or more qualified facilities, regardless
15 of whether the qualified facilities are preapproved by the authority
16 pursuant to this section.

17 8. "Qualified research" has the same meaning prescribed by section
18 41(d) of the internal revenue code, as defined by section 43-105, except
19 that the research must be conducted by a taxpayer involved in
20 manufacturing that derives at least sixty-five percent of its revenue from
21 out-of-state sales.

22 9. "Qualifying investment" means investment in land, buildings,
23 machinery, equipment and fixtures for expansion of an existing qualified
24 facility or establishment of a new qualified facility in this state after
25 June 30, 2012 for a facility completed in a taxable year beginning from
26 and after December 31, 2012. If the qualified facility is a build-to-suit
27 facility leased to the taxpayer, qualifying investment includes the costs
28 prescribed in this paragraph that are spent by the third-party developer
29 with respect to the qualified facility. Qualifying investment does not
30 include relocating an existing qualified facility in this state to another
31 location in this state without additional capital investment of at least
32 \$250,000.

33 10. "Rural location" means a location that is within the boundaries
34 of tribal lands or a city or town with a population of less than fifty
35 thousand persons or a county with a population of less than eight hundred
36 thousand persons.

37 Sec. 2. Section 41-1516, Arizona Revised Statutes, is amended to
38 read:

39 41-1516. Healthy forest enterprise incentives: definitions

40 A. The Arizona commerce authority shall:

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

44 2. Identify and certify to the department of revenue the names of
45 and relevant information relating to qualified businesses for the purposes

1 of available state tax incentives for economic enterprises that promote
2 forest health in this state.

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

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

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

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

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

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

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

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

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

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

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

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

43 4. Must enter into a memorandum of understanding with the authority
44 containing:

(a) Employment goals. Each year the business must report in writing to the authority its performance in achieving the goals.

13 (c) Provisions considered necessary by the authority to ensure the
14 competency and responsibility of businesses that qualify under this
15 section, including registration or other accreditation with trade and
16 professional organizations and compliance with best management and
17 operational practices used by governmental agencies in awarding forestry
18 contracts.

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

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

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

3 1. Apply to the authority.

4 2. Submit and retain copies of all required information, including
5 information relating to the actual or projected number of employees in
6 this state.

7 3. Allow inspections and audits to verify the qualification and
8 accuracy of information submitted to the authority.

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

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

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

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

33 1. Information prescribed by the authority with respect to both
34 qualifying projects and other projects and business activity that do not
35 qualify for purposes of this section.

36 2. ~~Employment information necessary to confirm eligibility for
37 income tax credit as prescribed by section 43-1076.~~

38 3. 2. The quantity, measured by weight, of qualifying forest
39 products harvested, transported or processed.

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

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

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

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

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

11 1. Inspect the facilities at the site.
12 2. Obtain factual data and records pertinent to and required by law
13 to be kept for purposes of tax incentives.

14 3. Otherwise ascertain compliance with law and the terms of the
15 memorandum of understanding.

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

18 1. Within thirty days after a formal request from the authority or
19 the department of revenue, the business fails or refuses to provide the
20 information or access for inspections required by this section.

21 2. The business no longer meets the terms and conditions required
22 for qualification for the applicable tax incentives.

23 L. For the purposes of this section:

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

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

31 3. "Processing" means:

32 (a) Any change in the physical structure of qualifying forest
33 products removed from a qualifying project into a marketable commercial
34 product or component of a product that has commercial value to a consumer
35 or purchaser and that is ready to be used with or without further altering
36 its form.

37 (b) Burning qualifying forest products in the process of commercial
38 electrical generation or commercial thermal energy production for heating
39 or cooling, regardless of the physical structure of the forest product
40 before burning.

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

1 licensed vehicles as provided by this paragraph. Qualifying equipment
2 includes:

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

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

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

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

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

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

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

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

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

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

31 5. "Qualifying forest products" means dead standing and fallen
32 timber, and forest thinnings associated with the harvest of small diameter
33 timber, slash, wood chips, peelings, brush and other woody vegetation,
34 removed from federal, state and other public forest land and from private
35 forest land.

36 6. "Qualifying project" means harvesting, transporting or processing
37 qualifying forest products as required for certification pursuant to this
38 section.

39 Sec. 3. Section 43-222, Arizona Revised Statutes, is amended to
40 read:

41 **43-222. Income tax credit review schedule**

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

44 1. For years ending in 0 and 5, sections 43-1079.01, 43-1088,
45 43-1089.04, 43-1167.01 and 43-1175.

1 2. For years ending in 1 and 6, sections 43-1072.02, 43-1074.02,
2 43-1075, 43-1076.01, 43-1077, 43-1078, 43-1083, 43-1083.02, 43-1162,
3 43-1164.03 and 43-1183.

4 3. For years ending in 2 and 7, sections 43-1073, 43-1085, 43-1086,
5 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1164, 43-1169 and 43-1181.

6 4. For years ending in 3 and 8, sections 43-1074.01, 43-1081,
7 43-1168, 43-1170 and 43-1178.

8 5. For years ending in 4 and 9, sections 43-1073.01, ~~43-1076,~~
9 ~~43-1081.01~~, 43-1083.03, 43-1084, 43-1164.04, 43-1164.05 and 43-1184.

10 Sec. 4. Section 43-1021, Arizona Revised Statutes, is amended to
11 read:

12 43-1021. *Addition to Arizona gross income*

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

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

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

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

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

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

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

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

1 8. The amount by which the adjusted basis computed under the
2 internal revenue code with respect to property for which a credit was
3 claimed under section 43-1074.02, ~~OR~~ 43-1081 ~~OR~~ ~~43-1081.01~~ and that is
4 sold or otherwise disposed of during the taxable year exceeds the adjusted
5 basis of the property computed under section 43-1074.02, ~~OR~~ 43-1081 ~~OR~~
6 ~~43-1081.01~~, as applicable.

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

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

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

17 12. The amount of a nonqualified withdrawal, as defined in section
18 15-1871, from a college savings plan established pursuant to section 529
19 of the internal revenue code that is made to a distributee to the extent
20 the amount is not included in computing federal adjusted gross income,
21 except that the amount added under this paragraph shall not exceed the
22 difference between the amount subtracted under section 43-1022 in prior
23 taxable years and the amount added under this section in any prior taxable
24 years.

25 13. If a subtraction is or has been taken by the taxpayer under
26 section 43-1024, in the current or a prior taxable year for the full
27 amount of eligible access expenditures paid or incurred to comply with the
28 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)
29 or title 41, chapter 9, article 8, any amount of eligible access
30 expenditures that is recognized under the internal revenue code, including
31 any amount that is amortized according to federal amortization schedules,
32 and that is included in computing taxable income for the current taxable
33 year.

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

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

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

43 15. For taxable years beginning from and after December 31, 2021,
44 the amount deducted by the partnership or S corporation pursuant to the
45 internal revenue code for the amount paid to this state under section

1 43-1014 and for taxes that the department determines are substantially
2 similar to the tax imposed under section 43-1014. This amount shall be
3 reflected in the partner's or shareholder's Arizona gross income and the
4 partnership's or S corporation's Arizona taxable income.

5 Sec. 5. Repeal

6 Sections 43-1076 and 43-1081.01, Arizona Revised Statutes, are
7 repealed.

8 Sec. 6. Section 43-1084, Arizona Revised Statutes, is amended to
9 read:

10 43-1084. Credit for agricultural water conservation system

11 A. A credit is allowed against the taxes imposed by this title for
12 expenses that the taxpayer incurred during the taxable year to purchase
13 and install an agricultural water conservation system in this state. The
14 amount of the credit is equal to seventy-five percent of the qualifying
15 expenses.

16 B. To qualify for the credit under this section:

17 1. The agricultural water conservation system must be primarily
18 designed to substantially conserve water on land that is used by the
19 taxpayer or the taxpayer's tenant to:

20 (a) Produce crops, fruits or other agricultural products.

21 (b) Raise, harvest or grow trees.

22 (c) Sustain livestock.

23 2. The expense must be consistent with a conservation plan that the
24 taxpayer has filed with the United States department of agriculture,
25 natural resources conservation service, or a natural resource conservation
26 district in this state established pursuant to title 37, chapter 6.

27 C. Co-owners of the land on which the water conservation system is
28 installed, including partners in a partnership and shareholders of an S
29 corporation, as defined in section 1361 of the internal revenue code, may
30 each claim only the pro rata share of the credit allowed under this
31 section based on the ownership interest. The total of the credits allowed
32 all such owners may not exceed the amount that would have been allowed a
33 sole owner.

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

39 E. The credit allowed by this section is in lieu of any deduction
40 for such expenses allowed by the internal revenue code and included under
41 section 43-1042 in computing taxable income.

42 F. ON OR BEFORE MARCH 1 EACH YEAR, EACH CLAIMANT SHALL REPORT TO
43 THE DEPARTMENT ON THE REDUCTION IN WATER USAGE THAT RESULTS FROM
44 INSTALLING THE AGRICULTURAL WATER CONSERVATION SYSTEM.

1 G. ON OR BEFORE MAY 1 EACH YEAR, THE DEPARTMENT SHALL REPORT TO THE
2 JOINT LEGISLATIVE COMMITTEE ON THE FOLLOWING:

3 1. THE REDUCTION IN WATER USAGE THAT RESULTS FROM INSTALLING THE
4 AGRICULTURAL WATER CONSERVATION SYSTEMS, AS REPORTED BY ALL CLAIMANTS.

5 2. THE NUMBER OF STATES WHERE TAXPAYERS RECEIVE AN INCOME TAX
6 CREDIT THAT IS COMPARABLE TO THE TAX CREDIT ALLOWED UNDER THIS SECTION.

7 Sec. 7. Requirements for enactment: two-thirds vote

8 Pursuant to article IX, section 22, Constitution of Arizona, this
9 act is effective only on the affirmative vote of at least two-thirds of
10 the members of each house of the legislature and is effective immediately
11 on the signature of the governor or, if the governor vetoes this act, on
12 the subsequent affirmative vote of at least three-fourths of the members
13 of each house of the legislature.