

REFERENCE TITLE: luxury tax; nicotine; vapor; products

State of Arizona  
House of Representatives  
Fifty-seventh Legislature  
First Regular Session  
2025

## HB 2778

Introduced by  
Representatives Hernandez C: Contreras L, Hernandez A, Powell, Volk

### AN ACT

AMENDING SECTIONS 42-1102, 42-1124, 42-1125, 42-2003, 42-3001, 42-3008, 42-3051, 42-3052 AND 42-3053, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 3, ARTICLE 3, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-3107; AMENDING SECTIONS 42-3401, 42-3403, 42-3404, 42-3405, 42-3406, 42-3501 AND 42-3502, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 3, ARTICLE 12, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-3504; RELATING TO LUXURY TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-1102, Arizona Revised Statutes, is amended to  
3 read:

4 42-1102. Taxpayer bonds; definition

5 A. If the department deems it necessary to protect the revenues to  
6 be collected under this title and title 43, it may require a person liable  
7 for the tax to file a bond to secure the payment of the tax, penalty or  
8 interest, which may become due from that person. The bond shall be:

9 1. Issued by a surety company authorized to transact business in  
10 this state and approved by the director of the department of insurance and  
11 financial institutions of this state as to solvency and responsibility or  
12 composed of securities or cash that are deposited with, and kept in the  
13 custody of, the department.

14 2. Except as otherwise provided in this section, in the amount that  
15 the department prescribes by administrative rule to secure the payment of  
16 any tax, penalty or interest, which may become due from the person.

17 B. For the purposes of licenses to sell tobacco products, **NICOTINE**  
18 **PRODUCTS OR VAPOR PRODUCTS** issued under section 42-3401, the amount of the  
19 bond required under this section is the greater of \$500 or four times the  
20 average monthly tax liability. For the purposes of determining the bond  
21 amount, the average monthly tax liability is equal to the average monthly  
22 tax due from the applicant for the preceding six consecutive months. If  
23 an applicant does not have a six-month payment history, the bond amount is  
24 a minimum of \$500. If an applicant provides a surety bond and the bond  
25 lapses, the applicant shall deposit with the department cash or other  
26 security in an amount equal to the lapsed surety bond within five business  
27 days after the applicant's receipt of written notification by the  
28 department. The bond amount may be increased or decreased as necessary  
29 based on any reason listed in subsection D of this section or a change in  
30 the applicant's previous filing period, filing compliance record or  
31 payment history. If the bond amount is increased above the amount  
32 computed under this subsection, the applicant may request a hearing  
33 pursuant to subsection C of this section to show why the order increasing  
34 the bond amount is in error.

35 C. If the department determines that a person is to file a bond it  
36 shall notify the person to that effect, specifying the amount of the bond  
37 required. The person shall file the bond within five days after the  
38 giving of notice unless within that time the person requests in writing a  
39 hearing before the department at which time the department shall determine  
40 the necessity, propriety and amount of the bond. The determination is  
41 final unless within fifteen days after the giving of notice of the  
42 determination the person appeals the determination to the state board of  
43 tax appeals. The board shall decide on the appeal within fifteen days of  
44 its receipt. The bond, at any time without notice, may be applied to any

1 tax, penalties or interest due, and for that purpose the securities may be  
2 sold at public or private sale without notice to the depositor.

3 D. For purposes of this section a bond may be required if:

4 1. After investigation of financial status, the department  
5 determines that an applicant for a new license would be unable to timely  
6 remit amounts due.

7 2. An applicant for a new license held a license for a prior  
8 business, and the remittance record for the prior business falls within  
9 one of the conditions in paragraph 5 of this subsection.

10 3. The department experienced collection problems while the  
11 applicant was engaged in business under a prior license.

12 4. The applicant is substantially similar to a person who would  
13 have been required to post a bond under paragraph 5 of this subsection or  
14 the person had a previous license that was revoked. An applicant is  
15 substantially similar if it is owned or controlled by persons who owned or  
16 controlled a previous licensee.

17 5. An existing licensee has had two or more delinquencies in  
18 remitting tax during the preceding twenty-four months if filing on a  
19 quarterly or less frequent basis or four or more delinquencies during the  
20 preceding twenty-four months if filing on a monthly or more frequent  
21 basis.

22 E. If a licensee who is required to post a bond or security  
23 maintains a good filing and payment record for a period of two years, the  
24 licensee may request that the department waive the continued bond or  
25 security requirement.

26 F. For the purposes of this section, "person" includes a firm,  
27 partnership, joint venture, association, corporation, sole proprietorship  
28 or other business or governmental entity subject to a tax administered by  
29 this article but does not include an individual subject to individual  
30 income tax.

31 Sec. 2. Section 42-1124, Arizona Revised Statutes, is amended to  
32 read:

33 42-1124. Failure to affix stamps or pay or account for tax;  
34 forfeiture of commodity; sale of forfeited  
35 commodity; effect of seizure and sale; request for  
36 administrative hearing; definitions

37 A. If the department or its authorized agents or representatives  
38 discover any luxury subject to tax under chapter 3 of this title to which  
39 official stamps have not been affixed as required or on which the tax has  
40 not been paid or accounted for, the department or its agent or  
41 representative may seize and take possession of the luxury, and it is  
42 deemed forfeited to this state. Except as provided in subsection D or E  
43 of this section, the department, within a reasonable time thereafter,  
44 pursuant to a notice posted on the premises or by publication in a  
45 newspaper of general circulation in the county where the sale is to take

1 place, not fewer than five days before the date of sale, shall offer for  
2 sale and sell the forfeited luxuries. The department shall pay the  
3 proceeds of the sale into the state general fund. The sale shall take  
4 place in the county that is most convenient and economical. The  
5 department need not offer any property for sale if, in its opinion, the  
6 probable cost of sale exceeds the value of the property.

7 B. The seizure and sale do not relieve any person from the  
8 penalties provided for violating this title.

9 C. The department of revenue may enter into an interagency  
10 agreement with the department of transportation for the purpose of  
11 carrying out tobacco, **NICOTINE PRODUCT OR VAPOR PRODUCT** enforcement under  
12 chapter 3 of this title at ports of entry.

13 D. All tobacco products, **NICOTINE PRODUCTS AND VAPOR PRODUCTS** that  
14 are seized for violations under this title shall be forfeited to this  
15 state. All tobacco products that are forfeited to this state pursuant to  
16 section 13-3711, 36-798.06 or 42-3461 or section 44-7111, section 6(b)  
17 shall be destroyed. If a distributor defrauds this state by knowingly and  
18 intentionally failing to keep or make any record, return, report or  
19 inventory pertaining to tobacco products, **NICOTINE PRODUCTS OR VAPOR**  
20 **PRODUCTS**, by refusing to pay any luxury tax for tobacco products, **NICOTINE**  
21 **PRODUCTS OR VAPOR PRODUCTS** subject to tax under chapter 3 of this title or  
22 by attempting to evade or defeat any requirement of this title, the  
23 distributor shall forfeit to this state all fixtures, equipment and all  
24 other materials and personal property that are located on the premises of  
25 the distributor. Alternatively, at the request of the department, the  
26 distributor may be enjoined by an action commenced by the attorney general  
27 or a county attorney in the name of the state from engaging or continuing  
28 in any business for which a tax is imposed by this chapter until the tax  
29 has been paid and until the person has complied with this title.

30 E. The department may sell or otherwise dispose of any tobacco  
31 products, **NICOTINE PRODUCTS AND VAPOR PRODUCTS** forfeited to this state on  
32 such conditions as it deems most advantageous and just under the  
33 circumstances, unless the tobacco products, **NICOTINE PRODUCTS OR VAPOR**  
34 **PRODUCTS** are forfeited pursuant to section 13-3711, 36-798.06 or 42-3461  
35 or section 44-7111, section 6(b), **AS APPLICABLE**. The department shall  
36 deposit the proceeds of any sales made pursuant to this subsection in the  
37 state general fund.

38 F. The department shall give notice of the seizure and forfeiture  
39 of tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS** described in this  
40 section by personal service or by certified mail to all persons known by  
41 the department to have any right, title or interest in the  
42 property. Notice shall include a description of the tobacco products,  
43 **NICOTINE PRODUCTS AND VAPOR PRODUCTS** seized, the reason for the seizure  
44 and the time and place of the seizure. For seizures of cigarettes of more  
45 than sixty-one cartons of two hundred cigarettes each or the equivalent in

1 cigarette count, the department shall post and maintain an online notice  
2 of seizure and forfeiture on its website for a period of at least six  
3 months, beginning not later than ten business days after the date of the  
4 personal service of the notice to a person or the date of the mailing of  
5 the notice. The online notice shall display the date on which the  
6 department posts the notice to the website, which shall serve as the date  
7 of publication of the notice.

8 G. Any person whose legal rights, duties or privileges are  
9 determined by the notice of seizure and forfeiture may file a request for  
10 an administrative hearing with the department on a form prescribed by the  
11 department. The request for an administrative hearing shall contain a  
12 statement of the petitioner's interest in the tobacco products, **NICOTINE**  
13 **PRODUCTS OR VAPOR PRODUCTS** and an explanation of why the release or  
14 recovery of the tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS** is  
15 warranted on the ground that the tobacco products, **NICOTINE PRODUCTS OR**  
16 **VAPOR PRODUCTS** were erroneously or illegally seized.

17 H. The seizure and forfeiture of tobacco products, **NICOTINE**  
18 **PRODUCTS AND VAPOR PRODUCTS** by the department is an appealable agency  
19 action as defined in section 41-1092 and is governed by title 41, chapter  
20 6, article 10 and section 42-1251, except that:

21 1. A request for an administrative hearing that is filed under  
22 subsection G of this section is deemed to be timely filed if the request  
23 is filed with the department within ten days after the date of personal  
24 service on the petitioner or the date of mailing the notice to the  
25 petitioner. Any person **WHO IS** not served personally or by mail shall file  
26 the request within ten days after the date of publication of the notice.  
27 The failure of a person to file a timely request constitutes a bar to that  
28 person's right to any interest in the tobacco products, **NICOTINE PRODUCTS**  
29 **OR VAPOR PRODUCTS**, except insofar as the rights of that person may be  
30 established in an action filed by the department under this chapter.

31 2. If a request for an administrative hearing is not filed with the  
32 department at the expiration of ten days after the notice has been  
33 personally served, mailed or published, the department's determination is  
34 final. If a timely request for an administrative hearing has been filed  
35 with the department, the department shall request a hearing by the office  
36 of administrative hearings and the department shall suspend action until  
37 the final order of the department has been issued. An order that is  
38 issued by the office of administrative hearings is the final order of the  
39 department thirty days after the petitioner receives the decision unless a  
40 decision by the director is issued pursuant to section 42-1251. If the  
41 director issues a decision, that decision is the final order of the  
42 department.

43 I. For the purposes of this section, "cigarette", "distributor",  
44 ~~and~~ **"NICOTINE PRODUCTS"**, "tobacco products" **AND "VAPOR PRODUCTS"** have the  
45 same meanings prescribed in section 42-3001.

1       Sec. 3. Section 42-1125, Arizona Revised Statutes, is amended to  
2 read:

3       42-1125. Civil penalties; definition

4       A. If a taxpayer fails to make and file a return for a tax  
5 administered pursuant to this article on or before the due date of the  
6 return or the due date as extended by the department, unless it is shown  
7 that the failure is due to reasonable cause and not due to wilful neglect,  
8 four and one-half percent of the tax required to be shown on the return  
9 shall be added to the tax for each month or fraction of a month elapsing  
10 between the due date of the return and the date on which it is filed. The  
11 total penalty shall not exceed twenty-five percent of the tax found to be  
12 remaining due. The penalty so added to the tax is due and payable on  
13 notice and demand from the department. For the purpose of computing the  
14 penalty imposed under this subsection, the amount required to be shown as  
15 tax on a return shall be reduced by the amount of any part of the tax that  
16 is paid on or before the beginning of the month and by the amount of any  
17 credit against the tax that may be claimed on the return. If the amount  
18 required to be shown as tax on a return is less than the amount shown as  
19 tax on the return, the penalty described in this subsection shall be  
20 applied by substituting the lower amount.

21       B. If a taxpayer fails or refuses to file a return on notice and  
22 demand by the department, the taxpayer shall pay a penalty of twenty-five  
23 percent of the tax, which is due and payable on notice and demand by the  
24 department, in addition to any penalty prescribed by subsection A of this  
25 section, unless it is shown that the failure is due to reasonable cause  
26 and not due to wilful neglect. This penalty is payable on notice and  
27 demand from the department.

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

34       D. If a person fails to pay the amount shown as tax on any return  
35 within the time prescribed, a penalty of one-half of one percent, not to  
36 exceed a total of ten percent, shall be added to the amount shown as tax  
37 for each month or fraction of a month during which the failure continues,  
38 unless it is shown that the failure is due to reasonable cause and not due  
39 to wilful neglect. If the department determines that the person's failure  
40 to pay was due to reasonable cause and not due to wilful neglect and that  
41 a payment agreement pursuant to section 42-2057 is appropriate, the  
42 department shall not impose the penalty unless the taxpayer fails to  
43 comply with the payment agreement. If the taxpayer is also subject to a  
44 penalty under subsection A of this section for the same tax period, the  
45 total penalties under subsection A of this section and this subsection

shall not exceed twenty-five percent. For the purpose of computing the penalty imposed under this subsection:

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

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

E. If a person fails to pay any amount required to be shown on any return that is not so shown within twenty-one calendar days after the date of notice and demand, a penalty of one-half of one percent, not to exceed a total of ten percent, shall be added to the amount of tax for each month or fraction of a month during which the failure continues, unless it is shown that the failure is due to reasonable cause and not due to wilful neglect. If the taxpayer is also subject to penalty under subsection A of this section for the same tax period, the total penalties under subsection A of this section and this subsection shall not exceed twenty-five percent. For the purpose of computing the penalty imposed under this subsection, any amount required to be shown on any return shall be reduced by the amount of any part of the tax that is paid on or before the beginning of that month and by the amount of any credit against the tax that may be claimed on the return.

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

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

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

I. A person who, with or without intent to evade any requirement of this article or any lawful administrative rule of the department of revenue under this article, fails to file a return or to supply information required under this article or who, with or without such intent, makes, prepares, renders, signs or verifies a false or fraudulent return or statement or supplies false or fraudulent information shall pay a penalty of not more than \$1,000. This penalty shall be recovered by the

1 department of law in the name of this state by an action in any court of  
2 competent jurisdiction.

3 J. If the taxpayer files what purports to be a return of any tax  
4 administered pursuant to this article but that is frivolous or that is  
5 made with the intent to delay or impede the administration of the tax  
6 laws, that person shall pay a penalty of \$500.

7 K. If any person who is required to file or provide an information  
8 return under this title or title 43 or who is required to file or provide  
9 a return or report under chapter 3 of this title fails to file the return  
10 or report at the prescribed time or in the manner required, or files a  
11 return or report that fails to show the information required, that person  
12 shall pay a penalty of \$100 for each month or fraction of a month during  
13 which the failure continues unless it is shown that the failure is due to  
14 reasonable cause and not due to wilful neglect. The total penalties for  
15 each return or report under this subsection shall not exceed \$500.

16 L. If it appears to the superior court that proceedings before it  
17 have been instituted or maintained by a taxpayer primarily for delay or  
18 that the taxpayer's position is frivolous or groundless, the court may  
19 award damages in an amount not to exceed \$1,000 to this state. Damages so  
20 awarded shall be collected as a part of the tax.

21 M. A person who is required under section 43-413 to furnish a  
22 statement to an employee and who wilfully furnishes a false or fraudulent  
23 statement, or who wilfully fails to furnish a statement required by  
24 section 43-413, is for each such failure subject to a penalty of \$50.

25 N. A person who is required to collect or truthfully account for  
26 and pay a tax administered pursuant to this article, including any luxury  
27 privilege tax, and who wilfully fails to collect the tax or truthfully  
28 account for and pay the tax, or wilfully attempts in any manner to evade  
29 or defeat the tax or its payment, is, in addition to other penalties  
30 provided by law, liable for a penalty equal to the total amount of the tax  
31 evaded, not collected or not accounted for and paid. Except as provided  
32 in subsections U, V and W of this section, no other penalty under this  
33 section relating to failure to pay tax may be imposed for any offense to  
34 which this subsection applies.

35 O. For reporting periods beginning from and after February 28,  
36 2011, if a taxpayer who is required under section 42-1129 to pay by  
37 electronic funds transfer fails to do so, that taxpayer shall pay a  
38 penalty of five percent of the amount of the payment not made by  
39 electronic funds transfer unless it is shown that the failure is due to  
40 reasonable cause and not due to wilful neglect. For the reporting periods  
41 beginning on July 1, 2015, the penalty in this subsection applies to any  
42 taxpayer who is required under section 42-3053 to pay by electronic funds  
43 transfer and fails to do so unless it is shown that the failure is due to  
44 reasonable cause and not due to wilful neglect.



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

2 1. A person who fails to provide that person's taxpayer  
3 identification number in any return, statement or other document as  
4 required by section 42-1105, subsection A shall pay a penalty of \$5 for  
5 each such failure.

6 2. A person, when filing any return, statement or other document  
7 for compensation on behalf of a taxpayer, who fails to include that  
8 person's own taxpayer identification number and the taxpayer's  
9 identification number shall pay a penalty of \$50 for each such failure.

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

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

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

23 R. Beginning January 1, 2015, if a taxpayer continues in business  
24 without timely renewing a municipal privilege tax license as prescribed in  
25 section 42-5005, subsection D, a civil penalty of up to \$25 shall be added  
26 to the renewal fee for each jurisdiction.

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

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

34 1. The taxpayer is under audit by the department.

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

37 U. In addition to other penalties provided by law, a person who  
38 knowingly and intentionally does not comply with any requirement under  
39 chapter 3 of this title relating to tobacco products, **NICOTINE PRODUCTS OR**  
40 **VAPOR PRODUCTS** shall pay a penalty of \$1,000. A person who knowingly and  
41 intentionally does not pay any luxury tax that relates to tobacco  
42 products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS** imposed by chapter 3 of this  
43 title shall pay a penalty that is equal to ten percent of the amount of  
44 the unpaid tax.

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

6           1. For a first violation involving two thousand or more cigarettes,  
7 \$1,000.

8           2. For a subsequent violation involving two thousand or more  
9 cigarettes, \$5,000.

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

12          X. Notwithstanding subsection A of this section:

13           1. And except as provided by paragraph 2 of this subsection, the  
14 penalty imposed on a taxpayer that fails to make and file a return for tax  
15 administered pursuant to chapter 5 or 6 of this title on or before the due  
16 date of the return or the due date as extended by the department, unless  
17 it is shown that the failure is due to a reasonable cause and not due to  
18 wilful neglect, is four and one-half percent of the tax required to be  
19 shown on the return, or \$25, whichever is greater. The penalty shall be  
20 added to the tax for each month or fraction of a month elapsing between  
21 the due date of the return and the date on which it is filed. The total  
22 penalty may not exceed twenty-five percent of the tax required to be shown  
23 on the return, or \$100, whichever is greater.

24           2. The penalty imposed on a taxpayer that is required under section  
25 42-5014 to file electronically and that fails to do so is five percent of  
26 the tax required to be shown on the return, or \$25, whichever is greater,  
27 unless the failure is due to a reasonable cause and not due to wilful  
28 neglect.

29           3. For the purposes of this subsection, "tax required to be shown  
30 on the return" means the total tax liability before deducting payments.

31          Y. Notwithstanding subsection B of this section, the penalty  
32 imposed on a taxpayer that fails to file a return pursuant to chapter 5 or  
33 6 of this title on notice and demand by the department is twenty-five  
34 percent of the tax, or \$100, whichever is greater. The penalty is due and  
35 payable on notice and demand by the department, in addition to any penalty  
36 prescribed by subsection A of this section, unless it is shown that the  
37 failure is due to a reasonable cause and not due to wilful neglect.

38          Z. For the purposes of this section, and only as applied to the  
39 taxes imposed by chapter 5, articles 1 through 6 and chapter 6, articles  
40 1, 2 and 3 of this title, "reasonable cause" means a reasonable basis for  
41 the taxpayer to believe that the tax did not apply to the business  
42 activity or the storage, use or consumption of the taxpayer's tangible  
43 personal property in this state.

1       Sec. 4. Section 42-2003, Arizona Revised Statutes, is amended to  
2 read:

3       42-2003. Authorized disclosure of confidential information

4       A. Confidential information relating to:

5       1. A taxpayer may be disclosed to the taxpayer, its successor in  
6 interest or a designee of the taxpayer who is authorized in writing by the  
7 taxpayer. A principal corporate officer of a parent corporation may  
8 execute a written authorization for a controlled subsidiary. If a  
9 taxpayer elects to file an Arizona small business income tax return under  
10 section 43-302, a written authorization by the taxpayer to allow the  
11 department to disclose personal income tax information to a designee  
12 includes the corresponding Arizona small business income tax return.

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

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

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

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

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

38       7. A government entity may be disclosed to the head of the entity  
39 or a member of the governing board of the entity, or any employee of the  
40 entity who has been delegated the authorization in writing by the head of  
41 the entity or the governing board of the entity.

42       8. Any taxpayer may be disclosed if the taxpayer has waived any  
43 rights to confidentiality either in writing or on the record in any  
44 administrative or judicial proceeding.

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

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

6           B. Confidential information may be disclosed to:

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

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

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

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

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

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

36           (b) A state tax official of another state.

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

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

43           (e) An agency, official or organization of an Indian tribal  
44 government with responsibilities comparable to the responsibilities of the

1 agencies, officials or organizations identified in subdivision (a), (b) or  
2 (c) of this paragraph.

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

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

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

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

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

12 8. The office of administrative hearings relating to taxes  
13 administered by the department pursuant to section 42-1101, but the  
14 department shall not disclose any confidential information without the  
15 taxpayer's written consent:

16 (a) Regarding income tax or withholding tax.

17 (b) On any tax issue relating to information associated with the  
18 reporting of income tax or withholding tax.

19 9. The United States treasury inspector general for tax  
20 administration for the purpose of reporting a violation of internal  
21 revenue code section 7213A (26 United States Code section 7213A),  
22 unauthorized inspection of returns or return information.

23 10. The financial management service of the United States treasury  
24 department for use in the treasury offset program.

25 11. The United States treasury department or its authorized agent  
26 for use in the state income tax levy program and in the electronic federal  
27 tax payment system.

28 12. The Arizona commerce authority for its use in:

29 (a) Qualifying renewable energy operations for the tax incentives  
30 under section 42-12006.

31 (b) Qualifying businesses with a qualified facility for income tax  
32 credits under sections 43-1083.03 and 43-1164.04.

33 (c) Fulfilling its annual reporting responsibility pursuant to  
34 section 41-1512, subsections U and V and section 41-1517, subsection L.

35 (d) Certifying computer data centers for tax relief under section  
36 41-1519.

37 (e) Certifying applicants for the tax credit for motion picture  
38 production costs under sections 43-1082 and 43-1165.

39 13. A prosecutor for purposes of section 32-1164, subsection C.

40 14. The office of the state fire marshal for use in determining  
41 compliance with and enforcing title 37, chapter 9, article 5.

42 15. The department of transportation for its use in administering  
43 taxes, surcharges and penalties prescribed by title 28.

44 16. The Arizona health care cost containment system administration  
45 for its use in administering nursing facility provider assessments.

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

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

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

11           20. The department of health services for its use in determining  
12 the following:

13           (a) Whether a medical marijuana dispensary is in compliance with  
14 the tax requirements of chapter 5 of this title for the purposes of  
15 section 36-2806, subsection A.

16           (b) Whether a marijuana establishment, marijuana testing facility  
17 or dual licensee licensed under title 36, chapter 28.2 is in compliance  
18 with the tax obligations under this title or title 43.

19           21. The Arizona department of agriculture for the purpose of  
20 ascertaining compliance with the licensing provisions in title 3.

21           22. The office of economic opportunity for the purpose of  
22 performing the duties and obligations to or on behalf of this state  
23 prescribed by title 41, chapter 53.

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

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

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

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

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

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

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

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

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

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

15 G. Confidential information relating to transaction privilege tax,  
16 use tax, severance tax, jet fuel excise and use tax and any other tax  
17 collected by the department on behalf of any jurisdiction may be disclosed  
18 to any county, city or town tax official if the information relates to a  
19 taxpayer who is or may be taxable by a county, city or town or who may be  
20 subject to audit by the department pursuant to section 42-6002. Any  
21 taxpayer information that is released by the department to the county,  
22 city or town:

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

30 (a) The information redisclosed is limited to the following:

31 (i) The transaction privilege tax license number.

32 (ii) The type of organization or ownership of the business.

33 (iii) The legal business name and doing business as name, if  
34 different from the legal name.

35 (iv) The business mailing address, tax record physical location  
36 address, telephone number, email address and fax number.

37 (v) The date the business started in this state, the business  
38 description and the North American industry classification system code.

39 (vi) The name, address and telephone number for each owner,  
40 partner, corporate officer, member, managing member or official of the  
41 employing unit.

42 (b) Redisclosure is limited to nonelected officials in other units  
43 within the county, city or town. The information may not be redisclosed  
44 to an elected official or the elected official's staff.

1 (c) All redisclosures of confidential information made pursuant to  
2 this paragraph are subject to paragraph 2 of this subsection.

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

10 H. The department may disclose statistical information gathered  
11 from confidential information if it does not disclose confidential  
12 information attributable to any one taxpayer. The department may disclose  
13 statistical information gathered from confidential information, even if it  
14 discloses confidential information attributable to a taxpayer, to:

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

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

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

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

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

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

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

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



1       O. If the department is required or allowed to disclose  
2 confidential information, it may charge the person or agency requesting  
3 the information for the reasonable cost of its services.

4       P. Except as provided in section 42-2002, subsection D, the  
5 department of revenue shall release confidential information as requested  
6 by the department of economic security pursuant to section 42-1122 or  
7 46-291. Information disclosed under this subsection is limited to the  
8 same type of information that the United States internal revenue service  
9 is authorized to disclose under section 6103(l)(6) of the internal revenue  
10 code.

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

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

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

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

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

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

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

43       1. The treatment of an item reflected on such a return is or may be  
44 related to the resolution of an issue in the proceeding.

2. Such a return or the return information relates or may relate to a transactional relationship between a person who is a party to the proceeding and the taxpayer that directly affects the resolution of an issue in the proceeding.

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

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

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

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

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

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

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

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

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

X. Notwithstanding any other provision of this section, the department may not disclose information provided by an online lodging marketplace, as defined in section 42-5076, without the written consent of the online lodging marketplace, and the information may be disclosed only pursuant to subsection A, paragraphs 1 through 6, 8 and 10, subsection B,

1 paragraphs 1, 2, 7 and 8 and subsections C, D and G of this section. Such  
2 information:

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

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

7 Sec. 5. Section 42-3001, Arizona Revised Statutes, is amended to  
8 read:

9 42-3001. Definitions

10 In this chapter, unless the context otherwise requires:

11 1. "Affix" and "affixed" include imprinting tax meter stamps on  
12 packages and individual containers as authorized by the department.

13 2. "Brand family" has the same meaning prescribed in section  
14 44-7111.

15 3. "Cavendish" means a tobacco product that is smoked from a pipe  
16 and that meets one of the following criteria:

17 (a) Is described as cavendish, as containing cavendish or as a  
18 cavendish blend on its packaging, labeling or promotional materials.

19 (b) Appears to have been processed or manufactured with an amount  
20 of flavorings and humectants that exceeds twenty percent of the weight of  
21 the tobacco contained in the product.

22 (c) Appears to be blended with or contain a tobacco product  
23 described in subdivision (b) of this paragraph.

24 4. "Cider" means vinous liquor that is made from the normal  
25 alcoholic fermentation of the juice of sound, ripe apples, pears or other  
26 pome fruit, including flavored, sparkling and carbonated cider and cider  
27 made from condensed apple, pear or other pome fruit must, and that  
28 contains more than one-half of one percent of alcohol by volume but not  
29 more than seven percent of alcohol by volume.

30 5. "Cigar" means any roll of tobacco wrapped in leaf tobacco or in  
31 any substance containing tobacco other than any roll of tobacco that is a  
32 cigarette, as defined in paragraph 6, subdivision (b) of this section.

33 6. "Cigarette" means either of the following:

34 (a) Any roll of tobacco wrapped in paper or any substance not  
35 containing tobacco.

36 (b) Any roll of tobacco wrapped in any substance containing tobacco  
37 that, because of its appearance, the type of tobacco used in the filler or  
38 its packaging and labeling, is likely to be offered to or purchased by a  
39 consumer as a cigarette described in subdivision (a) of this paragraph.  
40 This subdivision shall be interpreted consistently with the classification  
41 guidelines established by the federal alcohol and tobacco tax and trade  
42 bureau.

43 7. "Consumer" means a person in this state that comes into  
44 possession of any luxury subject to the tax imposed by this chapter and

that, on coming into possession of the luxury, is not a distributor intending to sell or distribute the luxury, a retailer or a wholesaler.

8. "Craft distiller" means a distiller in the United States or in a territory or possession of the United States that holds a license pursuant to section 4-205.10.

9. "Distributor" means any person that manufactures, produces, ships, transports or imports into this state or in any manner acquires or possesses for the purpose of making the first sale of the following:

(a) Cigarettes without Arizona tax stamps affixed as required by this article.

(b) Roll-your-own tobacco or other tobacco products on which the taxes have not been paid as required by this chapter.

(c) NICOTINE PRODUCTS OR VAPOR PRODUCTS ON WHICH THE TAXES HAVE NOT BEEN PAID AS REQUIRED BY THIS CHAPTER.

10. "Farm winery" has the same meaning prescribed in section 4-101.

11. "First sale" means the initial sale or distribution in intrastate commerce or the initial use or consumption of cigarettes, roll-your-own tobacco, ~~or~~ other tobacco products, NICOTINE PRODUCTS OR VAPOR PRODUCTS.

12. "Luxury" means any article, object or device on which a tax is imposed under this chapter.

13. "Malt liquor" means any liquid that contains more than one-half of one percent alcohol by volume and that is made by the process of fermentation and not distillation of hops or grains, but not including:

(a) Liquids made by the process of distillation of such substances.

(b) Medicines that are unsuitable for beverage purposes.

14. "Master settlement agreement" has the same meaning prescribed in section 44-7101.

15. "Microbrewery" has the same meaning prescribed in section 4-101.

16. "NICOTINE PRODUCT":

(a) MEANS ANY NONCOMBUSTIBLE PRODUCT CONTAINING NICOTINE THAT IS INTENDED FOR HUMAN CONSUMPTION, WHETHER CHEWED, ABSORBED, DISSOLVED OR INGESTED BY ANY OTHER MEANS.

(b) DOES NOT INCLUDE:

(i) A TOBACCO PRODUCT.

(ii) A VAPOR PRODUCT.

(iii) A DRUG, DEVICE OR COMBINATION PRODUCT AUTHORIZED FOR SALE BY THE UNITED STATES FOOD AND DRUG ADMINISTRATION, AS THOSE TERMS ARE DEFINED IN THE FEDERAL FOOD, DRUG, AND COSMETIC ACT (52 STAT. 1040; 21 UNITED STATES CODE SECTION 321) OR THE REGULATIONS ADOPTED PURSUANT TO THE FEDERAL FOOD, DRUG, AND COSMETIC ACT.

~~16.~~ 17. "Nonparticipating manufacturer" has the same meaning prescribed in section 44-7111.

1       ~~17.~~ 18. "Other tobacco products" means tobacco products other than  
2 cigarettes and roll-your-own tobacco.

3       ~~18.~~ 19. "Participating manufacturer" has the same meaning  
4 prescribed in section 44-7111.

5       ~~19.~~ 20. "Person" means any individual, firm, partnership, joint  
6 venture, association, corporation, municipal corporation, estate, trust,  
7 club, society or other group or combination acting as a unit, and the  
8 plural as well as the singular number.

9       ~~20.~~ 21. "Place of business":

10       (a) Means a building, facility site or location where an order is  
11 received or where tobacco products, NICOTINE PRODUCTS OR VAPOR PRODUCTS  
12 are sold, distributed or transferred. ~~Place of business~~

13       (b) Does not include a vehicle.

14       ~~21.~~ 22. "Retailer" means any person that comes into possession of  
15 any luxury subject to the taxes imposed by this chapter for the purpose of  
16 selling it for consumption and not for resale.

17       ~~22.~~ 23. "Roll-your-own tobacco" means any tobacco that, because of  
18 its appearance, type, packaging or labeling, is suitable for use and  
19 likely to be offered to or purchased by consumers as tobacco for making  
20 cigarettes. This paragraph shall be interpreted consistently with the  
21 term as used in section 44-7101. This paragraph shall be interpreted  
22 consistently with the classification guidelines established by the federal  
23 alcohol and tobacco tax and trade bureau.

24       ~~23.~~ 24. "Smoking tobacco":

25       (a) Means any tobacco that, because of its appearance, type,  
26 packaging, labeling or promotion, is suitable for use and likely to be  
27 offered to or purchased by consumers as tobacco for making cigarettes or  
28 otherwise consumed by burning. ~~Smoking tobacco~~

29       (b) Includes pipe tobacco and roll-your-own tobacco.

30       ~~24.~~ 25. "Spirituuous liquor":

31       (a) Means any liquid that contains more than one-half of one  
32 percent alcohol by volume, that is produced by distillation of any  
33 fermented substance and that is used or prepared for use as a  
34 beverage. ~~Spirituuous liquor~~

35       (b) Does not include medicines that are unsuitable for beverage  
36 purposes.

37       ~~25.~~ 26. "Tobacco product manufacturer" has the same meaning  
38 prescribed in section 44-7101.

39       ~~26.~~ 27. "Tobacco products" means all luxuries included in section  
40 42-3052, paragraphs 5 through 9.

41       28. "VAPOR PRODUCT":

42       (a) MEANS ANY DEVICE THAT MAY BE USED TO DELIVER ANY AEROSOLIZED OR  
43 VAPORIZED SUBSTANCE TO THE PERSON WHO INHALES FROM THE DEVICE, INCLUDING  
44 AN E-CIGARETTE, E-CIGAR, E-PIPE, VAPE PEN OR E-HOOKAH.

1 (b) INCLUDES WHETHER OR NOT SOLD SEPARATELY:  
2 (i) ANY COMPONENT, PART OR ACCESSORY OF THE DEVICE.  
3 (ii) ANY SUBSTANCE THAT IS INTENDED TO BE AEROSOLIZED OR VAPORIZED  
4 DURING THE USE OF THE DEVICE, WHETHER OR NOT THE SUBSTANCE CONTAINS  
5 NICOTINE.  
6 (c) DOES NOT INCLUDE:  
7 (i) MARIJUANA OR MARIJUANA PRODUCTS.  
8 (ii) DRUGS, DEVICES OR COMBINATION PRODUCTS AUTHORIZED FOR SALE BY  
9 THE UNITED STATES FOOD AND DRUG ADMINISTRATION, AS THOSE TERMS ARE DEFINED  
10 IN THE FEDERAL FOOD, DRUG, AND COSMETIC ACT (52 STAT. 1040; 21 UNITED  
11 STATES CODE SECTION 321) OR THE REGULATIONS ADOPTED PURSUANT TO THE  
12 FEDERAL FOOD, DRUG, AND COSMETIC ACT.  
13 ~~27.~~ 29. "Vehicle" means a device in, on or by which a person or  
14 property is or may be transported or drawn on the roads of this state  
15 regardless of the means by which it is propelled or whether it runs on a  
16 track.  
17 ~~28.~~ 30. "Vinous liquor":  
18 (a) Means any liquid that contains more than one-half of one  
19 percent alcohol by volume and that is made by the process of fermentation  
20 of grapes, berries, fruits, vegetables or other substances. ~~but~~  
21 (b) Does not include:  
22 ~~(a)~~ (i) Liquids in which hops or grains are used in the process of  
23 fermentation.  
24 ~~(b)~~ (ii) Liquids made by the process of distillation of hops or  
25 grains.  
26 ~~(c)~~ (iii) Medicines that are unsuitable for beverage purposes.  
27 ~~29.~~ 31. "Wholesaler" means a person that sells any spirituous,  
28 vinous or malt liquor taxed under this chapter to retail dealers or for  
29 the purposes of resale only.  
30 Sec. 6. Section 42-3008, Arizona Revised Statutes, is amended to  
31 read:  
32 42-3008. Refunds; definitions  
33 A. Except as provided in subsection C of this section, the tax  
34 imposed by this chapter on any luxury shall be refunded when the amount of  
35 the tax has been paid and when one of the following applies:  
36 1. Proof is made to the department that the luxuries were exported  
37 from this state or that the stamps have been affixed to luxuries on which  
38 stamps are not required.  
39 2. Proof is made to the department that the luxury becomes unfit  
40 for sale due to breakage or spoilage within either six months from the  
41 date that the distributor originally receives the luxury for sale or two  
42 months from the date that the luxury was returned to the distributor by a  
43 retailer, whichever occurs later.  
44 3. Within six months after a distributor returns a luxury to the  
45 manufacturer or importer, proof of the return is made to the department.

B. The manner of making proof shall be in accordance with rules adopted by the department.

C. The department shall not refund the tax for stamps that are affixed to luxuries that are deemed contraband under this chapter.

D. Except as otherwise provided in section 42-1123, interest is calculated sixty days after receipt by the department of a claim for refund under this section.

E. For the purposes of this section:

1. "Breakage" means damage to the outer wrapping or container of a tobacco product, NICOTINE PRODUCT OR VAPOR PRODUCT.

2. "Importer" and "manufacturer" have the same meanings prescribed in section 42-3451.

3. "Spoilage" means mutilation, product expiration or unfit for intended consumption.

Sec. 7. Section 42-3051, Arizona Revised Statutes, is amended to read:

42-3051. Levy of tax

In addition to all other taxes, there is levied and imposed and there shall be collected and deposited, pursuant to sections 35-146 and 35-147, in the manner provided by this chapter, taxes on all spirituous, vinous and malt liquors, ~~and~~ on all cigarettes, cigars, smoking tobacco, plug tobacco, snuff and other forms of tobacco AND ON NICOTINE PRODUCTS AND VAPOR PRODUCTS, for use as may be prescribed by law.

Sec. 8. Section 42-3052, Arizona Revised Statutes, is amended to read:

42-3052. Classifications of luxuries; rates of tax

The taxes under this chapter are imposed at the following rates:

1. On each sealed container of spirituous liquor at the rate of ~~three dollars~~ \$3 per gallon and at a proportionate rate for any lesser or greater quantity than one gallon.

2. On each container of vinous liquor, except cider, of which the alcoholic content is not greater than twenty-four ~~per cent~~ PERCENT by volume at the rate of ~~eighty-four cents~~ \$.84 per gallon and at a proportionate rate for any lesser or greater quantity than one gallon.

3. On each container of vinous liquor of which the alcoholic content is greater than twenty-four ~~per cent~~ PERCENT by volume, containing eight ounces or less, ~~twenty-five cents~~ \$.25, and for each eight ounces for containers containing more than eight ounces, ~~twenty-five cents~~ \$.25.

4. On each gallon of malt liquor or cider, ~~sixteen cents~~ \$.16, and at a proportionate rate for any lesser or greater quantity than one gallon.

5. On each cigarette, ~~nine-tenths cent~~ \$.009.

6. On smoking tobacco, snuff, fine cut chewing tobacco, cut and granulated tobacco, shorts and refuse of fine cut chewing tobacco, and refuse, scraps, clippings, cuttings and sweepings of tobacco, excluding

1 tobacco powder or tobacco products used exclusively for agricultural or  
2 horticultural purposes and unfit for human consumption, ~~two cents~~ \$.02 per  
3 ounce or major fraction of an ounce.

4 7. On all cavendish, plug or twist tobacco, ~~one-half cent~~ \$.005 per  
5 ounce or fractional part of an ounce.

6 8. On each twenty small cigars or fractional part weighing not more  
7 than three pounds per thousand, ~~four cents~~ \$.04.

8 9. On cigars of all descriptions except those included in paragraph  
9 8 of this section, made of tobacco or any tobacco substitute:

10 (a) If manufactured to retail at not more than ~~five cents~~ \$.05  
11 each, ~~two cents~~ \$.02 on each three cigars.

12 (b) If manufactured to retail at more than ~~five cents~~ \$.05 each,  
13 ~~two cents~~ \$.02 on each cigar.

14 10. ON EACH NICOTINE PRODUCT AND VAPOR PRODUCT, FIFTY PERCENT OF  
15 THE WHOLESALE PRICE.

16 Sec. 9. Section 42-3053, Arizona Revised Statutes, is amended to  
17 read:

18 42-3053. Method of payment; receipts; electronic filings of  
19 returns, reports and other documents; license  
20 applications and requests for refund or rebate;  
21 definition

22 A. All orders for the purchase or receipt of tax stamps required  
23 under this chapter must be submitted pursuant to an electronic filing  
24 program established by the department. Except as provided in subsection B  
25 of this section, all remittances of taxes for the purchase of Arizona tax  
26 stamps imposed by this chapter shall be made by electronic funds transfer  
27 to the department in monies that are immediately available to this state  
28 on the date of transfer. A remittance other than cash does not constitute  
29 a final discharge of liability for the tax levied by this chapter until it  
30 has been paid in cash to the department.

31 B. Any distributor remitting any taxes levied under section 42-3302  
32 or under this chapter on any tobacco product other than cigarettes OR ON  
33 ANY NICOTINE PRODUCT OR VAPOR PRODUCT that is subject to tax under this  
34 chapter is required to pay the tax liability on or before the payment date  
35 in monies that are immediately available to this state on the date of  
36 transfer. The payment in immediately available monies must be made by  
37 electronic funds transfer and with the state treasurer's approval. The  
38 distributor must furnish evidence as prescribed by the department that the  
39 payment was remitted on or before the payment due date.

40 C. A person is required to electronically file any report, return  
41 or other document required under this chapter pursuant to an electronic  
42 filing program established by the department. The report, return or other  
43 document is deemed filed and received by the department on the date of the  
44 electronic postmark pursuant to section 42-1105.02.



D. An application for a license issued pursuant to section 42-3401 and any request for a refund or rebate of taxes paid on tobacco products, NICOTINE PRODUCTS OR VAPOR PRODUCTS made pursuant to section 42-3406 must be submitted pursuant to an electronic filing program established by the department. The application or request is considered to be filed and received by the department on the date of the electronic postmark pursuant to section 42-1105.02. The department may not consider applications or requests that fail to comply with this subsection. An applicant shall pay the application fee required under section 42-3401 to the department by electronic funds transfer.

E. A distributor who is required to make payment by electronic funds transfer under this chapter and who fails to do so is subject to the civil penalties prescribed by section 42-1125, subsection O. A distributor who fails to make a timely payment in immediately available monies as prescribed by this section is subject to civil penalties prescribed by section 42-1125, subsection D. A person who is required to electronically file any report, return or document under this chapter but fails to do so is subject to the civil penalty prescribed by section 42-1125, subsection K.

F. For the purposes of this section, "electronic filing program" has the same meaning prescribed in section 42-1105.02.

Sec. 10. Title 42, chapter 3, article 3, Arizona Revised Statutes, is amended by adding section 42-3107, to read:

42-3107. Monies collected from nicotine products and vapor products

NOTWITHSTANDING SECTION 42-3102, MONIES COLLECTED PURSUANT TO SECTION 42-3052, PARAGRAPH 10 SHALL BE DEPOSITED AS FOLLOWS:

1. FORTY PERCENT IN THE STATE GENERAL FUND.

2. SIXTY PERCENT IN THE EARLY CHILDHOOD DEVELOPMENT AND HEALTH FUND ESTABLISHED BY SECTION 8-1181. MONIES DEPOSITED PURSUANT TO THIS PARAGRAPH SHALL BE ALLOCATED AS FOLLOWS:

(a) SEVENTY PERCENT DEPOSITED IN THE SAME MANNER AS MONIES DEPOSITED IN THE EARLY CHILDHOOD DEVELOPMENT AND HEALTH FUND PURSUANT TO SECTION 8-1181, SUBSECTION D.

(b) THIRTY PERCENT DEPOSITED IN THE GRANT MONIES ACCOUNT ESTABLISHED BY SECTION 8-1181, SUBSECTION B FOR THE PURPOSES OF IMPROVING THE QUALITY OF AND INCREASING ACCESS TO EARLY CHILDHOOD EDUCATION PROGRAMS.

Sec. 11. Heading change

The article heading of title 42, chapter 3, article 10, Arizona Revised Statutes, is changed from "DISTRIBUTORS AND RETAILERS OF TOBACCO PRODUCTS" to "DISTRIBUTORS AND RETAILERS OF TOBACCO PRODUCTS, NICOTINE PRODUCTS AND VAPOR PRODUCTS".

1           Sec. 12. Section 42-3401, Arizona Revised Statutes, is amended to  
2 read:

3           42-3401. Tobacco product, nicotine product and vapor product  
4           distributor licenses; application; conditions;  
5           revocations and cancellations

6           A. Every person acquiring or possessing for the purpose of making  
7 the initial sale or distribution in this state of any tobacco products,  
8 **NICOTINE PRODUCTS OR VAPOR PRODUCTS** on which a tax is imposed by this  
9 chapter shall obtain from the department a license to sell tobacco  
10 products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS**. The application for the  
11 license shall be in the form provided by the department and shall be  
12 accompanied by a fee of \$25 for each place of business listed in the  
13 application. The form shall state that the identity of the applicant will  
14 be posted to the department's website for public inspection. The  
15 application for a license shall include the applicant's name and address,  
16 the applicant's principal place of business, all other places of business  
17 where the applicant's business is conducted for the purpose of making the  
18 initial sale or distribution of tobacco products, **NICOTINE PRODUCTS OR**  
19 **VAPOR PRODUCTS** in this state, including any location that maintains an  
20 inventory of tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS**, and  
21 any other information required by the department. The applicant's  
22 principal place of business and other business locations may not include a  
23 residential location or post office box address, except as allowed under  
24 subsection D, paragraph 2, subdivision (c) of this section. If the  
25 applicant is a firm, partnership, limited liability company, limited  
26 liability partnership or association, the applicant shall list the name  
27 and address of each of the applicant's members. If the applicant is a  
28 corporation, the application shall list the name and address of the  
29 applicant's officers and any person who directly or indirectly owns an  
30 aggregate amount of ten percent or more of the ownership interest in the  
31 corporation. If a licensee is a corporation, firm, partnership, limited  
32 liability company, limited liability partnership or association, the  
33 licensee under this subsection shall notify the department in writing  
34 within thirty days after any change in membership, legal entity status or  
35 ownership of more than fifty percent of the total ownership interest in a  
36 single transaction. If a licensee changes its business location, the  
37 licensee under this subsection shall notify the department within thirty  
38 days after a change in location. If the licensee is making a change in  
39 its business location by adding or replacing one or more additional places  
40 of business that are not currently listed on its application, the licensee  
41 must remit a fee of \$25 for each additional place of business.

42           B. For the purposes of subsection A of this section, an applicant  
43 with a controlling interest in more than one business engaged in  
44 activities as a distributor shall apply for a single license encompassing  
45 all such businesses and list each place of business in its application.

1 For the purposes of this subsection, "controlling interest" means direct  
2 or indirect ownership of at least eighty percent of the voting shares of a  
3 corporation or of the interests in a company, business or person other  
4 than a corporation.

5 C. The department shall issue a license authorizing the applicant  
6 to acquire or possess tobacco products, **NICOTINE PRODUCTS OR VAPOR**  
7 **PRODUCTS** in this state on the condition that the applicant complies with  
8 this chapter and the rules of the department. **THE DEPARTMENT MAY ISSUE**  
9 **SEPARATE LICENSES FOR TOBACCO PRODUCTS, NICOTINE PRODUCTS AND VAPOR**  
10 **PRODUCTS AND MAY CHARGE THE FEES PRESCRIBED IN SUBSECTION A OF THIS**  
11 **SECTION FOR EACH LICENSE OR ISSUE A SINGLE LICENSE FOR TOBACCO PRODUCTS,**  
12 **NICOTINE PRODUCTS OR VAPOR PRODUCTS.** The license:

13 1. Shall be nontransferable. A licensee may not transfer its  
14 license to a new owner when selling its business, and any court-appointed  
15 trustee, receiver or other person shall obtain a license in its own name  
16 in cases of liquidation, insolvency or bankruptcy or pursuant to a court  
17 order if the business remains in operation as a distributor of tobacco  
18 products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS.** In cases of liquidation,  
19 insolvency or bankruptcy or pursuant to a court order, the department will  
20 not consider a business as remaining in operation under this paragraph if  
21 the court-appointed trustee, receiver or other person winds up the  
22 business within sixty days after the order is issued. A licensee shall  
23 apply for a new license if it changes its legal entity status or otherwise  
24 changes the legal structure of its business.

25 2. Shall be valid for one year unless earlier canceled or revoked  
26 by the department.

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

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

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

42 2. All tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS** held  
43 or stored, whether within or outside of this state, for sale or  
44 distribution in this state by or on behalf of a distributor:

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

4 (b) May not be held or stored in a vehicle, except as allowed under  
5 section 42-3403, subsection B.

6 (c) May not be held or stored at a residential location, unless the  
7 sole luxury for sale or distribution by or on behalf of the distributor is  
8 taxed as a cigar under section 42-3052, paragraph 8 or 9 and the product  
9 weight of the cigars is not more than five hundred pounds. If the product  
10 is held or stored at a residential location, as a condition of licensure,  
11 the distributor shall provide written consent and allow access to the  
12 department to inspect the stock of luxuries and all books, papers,  
13 invoices, records and electronically stored data showing sales, receipts  
14 and purchases of luxuries. The distributor shall submit the written  
15 consent to the department with the license application or on demand of the  
16 department.

17 3. Tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS** may be  
18 sold, transferred or distributed to a retailer located on an Indian  
19 reservation in this state only if the retailer is registered with, and has  
20 a registration identification number issued by, the department.

21 E. A person who is convicted of an offense described in section  
22 42-1127, subsection E is permanently ineligible to hold a license issued  
23 under this section.

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

27 1. The applicant or licensee owes \$1,000 or more in delinquent  
28 taxes imposed on tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS**  
29 under this chapter that are not under protest or subject to a payment  
30 agreement.

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

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

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

38 5. The applicant or licensee has imported cigarettes into the  
39 United States for sale or distribution without fully complying with the  
40 federal cigarette labeling and advertising act (P.L. 89-92; 79 Stat. 282;  
41 15 United States Code section 1331).

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

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

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

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

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

I. A person may not apply for or hold a distributor's license if that person does not engage in the activities described in subsection A of this section. In addition to any other applicable penalty, the department may cancel the license of any licensee that fails to incur any tax liability under this chapter for twelve consecutive months.

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

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

Sec. 13. Section 42-3403, Arizona Revised Statutes, is amended to read:

42-3403. Tobacco product, nicotine product and vapor product  
retailers; vehicle as place of business  
prohibited; exceptions

A. A retailer may sell any tobacco product, NICOTINE PRODUCT OR VAPOR PRODUCT that is not otherwise prohibited by federal or state law from sale for resale, but a retailer may not acquire or possess unstamped cigarettes, or other tobacco products, ~~or~~ cigarettes, NICOTINE PRODUCTS OR VAPOR PRODUCTS on which taxes levied under this chapter have not been

1 paid, unless the retailer holds a valid license issued under section  
2 42-3401.

3 B. A person may not use a vehicle as a place of business for  
4 selling, transferring or otherwise distributing tobacco products, **NICOTINE**  
5 **PRODUCTS OR VAPOR PRODUCTS**. This subsection does not prohibit the lawful  
6 delivery of other tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS** by  
7 a person who holds a valid license issued under section 42-3401, or by  
8 that person's representative, using a vehicle that is owned, operated or  
9 contracted by that person or that person's representative. That person or  
10 that person's representative is expressly allowed to use such a vehicle to  
11 carry and store tax-paid other tobacco products, **NICOTINE PRODUCTS OR**  
12 **VAPOR PRODUCTS** in the normal course of performing the person's or the  
13 person's representative's duties, including for the purpose of selling  
14 other tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS** to, and  
15 performing similar lawful transactions with, retailers and distributors.  
16 If a vehicle is used by a licensed distributor to carry and store tax-paid  
17 other tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS**, as a  
18 condition of licensure, the distributor shall provide written consent and  
19 allow access to the department to inspect the stock of luxuries and all  
20 books, papers, invoices, records and electronically stored data showing  
21 sales, receipts and purchases of luxuries. The distributor shall submit  
22 the written consent to the department with the license application or on  
23 demand of the department.

24 C. This section does not prohibit business activities that are  
25 allowed under sections 42-3454 and 42-3502 for both taxed and untaxed  
26 tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS**.

27 Sec. 14. Section 42-3404, Arizona Revised Statutes, is amended to  
28 read:

29 **42-3404. Exemptions and exclusions of certain tobacco**  
30 **products, nicotine products and vapor products**  
31 **from tobacco taxes and nicotine products and vapor**  
32 **products taxes**

33 A. The taxes imposed by this chapter do not apply to:

34 1. Tobacco products that are sold to the United States army, air  
35 force, navy, marine corps or coast guard exchanges and commissaries and  
36 navy or coast guard ships' stores.

37 2. Tobacco products that are sold to the United States department  
38 of veterans affairs.

39 3. Tobacco products that are non-tax-paid under subtitle E, chapter  
40 52 of the internal revenue code and that are under internal revenue bond  
41 or customs control.

42 4. Tobacco products that are sold or transferred to a law  
43 enforcement agency for use in a criminal investigation if the sale or  
44 transfer is authorized by the department. A law enforcement agency

1 authorized by the department to receive or purchase tobacco products is  
2 not required to:

3 (a) Be licensed as a distributor.

4 (b) Collect or remit the tax imposed by this chapter with respect  
5 to authorized distributions.

6 5. Tobacco products that are sold by a distributor licensed under  
7 section 42-3401 to a common carrier engaged in foreign passenger service  
8 or to a retailer that sells tobacco products on the facilities of the  
9 carrier that are dedicated to foreign passenger service.

10 6. Federally tax free tobacco products that are sold or given for  
11 delivery directly from the manufacturer under internal revenue bond to a  
12 veterans' home of this state or a hospital or domiciliary facility of the  
13 United States department of veterans affairs for gratuitous issue to  
14 veterans receiving hospitalization or domiciliary care. The taxes are not  
15 imposed with respect to the use or consumption of the tobacco products by  
16 the institution, veteran patients or domiciliaries.

17 7. Tobacco products that are sold by a manufacturer to a  
18 distributor licensed under section 42-3401.

19 8. Tobacco products that are manufactured outside the United States  
20 and that are sold by an importer to a distributor licensed under section  
21 42-3401.

22 B. THE TAXES IMPOSED BY THIS CHAPTER DO NOT APPLY TO NICOTINE  
23 PRODUCTS OR VAPOR PRODUCTS TO THE SAME EXTENT THAT TAXES DO NOT APPLY TO  
24 TOBACCO PRODUCTS AS DESCRIBED IN SUBSECTION A OF THIS SECTION.

25 ~~B.~~ C. Subsection A, paragraphs 1 and 2 of this section do not  
26 apply after the first day of the first calendar month beginning more than  
27 sixty days after existing federal law is amended to permit state taxation  
28 of cigarettes sold by or through federal military installations.

29 ~~C.~~ D. Sales of tobacco products, NICOTINE PRODUCTS OR VAPOR  
30 PRODUCTS by a licensed distributor to an instrumentality of the United  
31 States government must be supported by a separate sales invoice and a  
32 properly completed federal exemption certificate. Each sales invoice must  
33 be numbered, be dated and show the name of the seller, the name of the  
34 purchaser and the destination.

35 ~~D.~~ E. This section does not affect the imposition of transaction  
36 privilege and use taxes pursuant to chapter 5 of this title to any  
37 transactions described in subsection A OR B of this section if the  
38 transaction is otherwise subject to transaction privilege tax or use tax.

39 ~~E.~~ F. The exemptions and exclusions provided in subsection A OR B  
40 of this section do not affect the taxability under this chapter of tobacco  
41 products, NICOTINE PRODUCTS OR VAPOR PRODUCTS that are sold, given or  
42 transferred to a person in this state subsequent to the transactions  
43 described in subsection A OR B of this section.



1       Sec. 15. Section 42-3405, Arizona Revised Statutes, is amended to  
2 read:

3       42-3405. Tobacco product, nicotine product and vapor product  
4               manufacturers, importers, distributors and  
5               retailers; recordkeeping and invoicing  
6               requirements; retention period

7       A. Except for retail transactions with consumers, each  
8 manufacturer, importer and distributor of tobacco products, **NICOTINE**  
9 **PRODUCTS AND VAPOR PRODUCTS** shall maintain copies of invoices or  
10 equivalent documentation for each facility and for each transaction that  
11 involves the sale, purchase, transfer, consignment or receipt of tobacco  
12 products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS** within this state. The  
13 invoices or equivalent documentation for each transaction shall be in the  
14 form and manner prescribed by the department and shall indicate the name  
15 and address of the other party and the quantity by brand style of the  
16 tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS** involved in the  
17 transaction.

18       B. A distributor of tobacco products, **NICOTINE PRODUCTS OR VAPOR**  
19 **PRODUCTS** shall issue an invoice or equivalent documentation for each  
20 transaction that involves the sale, purchase or consignment of tobacco  
21 products to a retailer. The invoice or equivalent documentation must  
22 include the license number of the distributor, which the retailer may use  
23 to ascertain whether the license is current and valid.

24       C. Any retailer of tobacco products, **NICOTINE PRODUCTS OR VAPOR**  
25 **PRODUCTS** shall retain all invoices or equivalent documentation received  
26 under subsection B of this section.

27       D. Records required under this section shall be preserved on the  
28 premises described in the relevant license in a manner as to ensure  
29 accessibility for inspection at reasonable hours by authorized personnel  
30 of the department. With the department's permission, persons with  
31 multiple places of business may retain centralized records, but shall  
32 transmit duplicates of the invoices or the equivalent documentation to  
33 each place of business within three business days after a request by the  
34 department.

35       E. The records required by this section shall be retained for a  
36 period of four years after the date of the transaction.

37       F. On request, the department and the United States secretary of  
38 the treasury or secretary's designee shall have access to records required  
39 under this section and reports required under section 42-3462. The  
40 department at its sole discretion may share the records and reports  
41 required by this chapter with other law enforcement officials of federal  
42 and state governments under conditions that assume the confidentiality of  
43 taxpayer information contained in the records and reports.



1           Sec. 16. Section 42-3406, Arizona Revised Statutes, is amended to  
2 read:

3           42-3406. Refunds and rebates of tobacco taxes and nicotine  
4                   products and vapor products taxes; supporting  
5                   documentation; distributor's burden of proof

6           A. Except as otherwise provided under subsection B of this section  
7 or by the department for a refund or redemption under section 42-3008 or  
8 42-3460, a distributor requesting any refund or rebate of taxes paid on  
9 tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS** pursuant to article  
10 2, 6, 7 or 9 of this chapter shall establish entitlement to the refund or  
11 rebate by obtaining a report executed by the retailer that purchased the  
12 tobacco products, **NICOTINE PRODUCTS OR VAPOR PRODUCTS** on which the  
13 distributor paid taxes, indicating the name and address of the retailer  
14 and the quantities of tobacco products, **NICOTINE PRODUCTS OR VAPOR**  
15 **PRODUCTS** sold, separately identified by the tax category of tobacco  
16 product, **NICOTINE PRODUCT OR VAPOR PRODUCT** and the necessary facts to  
17 establish the appropriate amount of refund or rebate. The report is  
18 subject to the following conditions:

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

25           2. The burden of proof for the refund or rebate is on the  
26 distributor, but if the distributor complies in all other respects with  
27 this section, the department may require the retailer that caused the  
28 execution of the report to establish the accuracy and completeness of the  
29 information required to be contained in the report that would entitle the  
30 distributor to the refund or rebate. If the retailer cannot establish the  
31 accuracy and completeness of the information, the retailer is liable in an  
32 amount equal to any tax, penalty and interest that the distributor would  
33 have been liable for under this chapter if the distributor had not  
34 otherwise complied with this section. Payment of the amount under this  
35 section by the retailer exempts the distributor from liability for the  
36 underlying tax, penalty and interest. All amounts paid by a retailer  
37 under this paragraph shall be treated as tax revenues collected from the  
38 distributor in order to designate the distribution base for the purposes  
39 of this chapter.

40           B. In its discretion and in circumstances in which a retailer is  
41 uncooperative, nonresponsive or no longer in business, the department may  
42 accept proof other than a report described in subsection A of this section  
43 if the distributor shows, to the satisfaction of the department, that it  
44 exercised ordinary business care and prudence but was unable to furnish a  
45 report executed by the retailer. Acceptable forms of proof presented by

the distributor pursuant to this subsection must consist of books, records or papers maintained by the distributor or retailer in the regular course of business.

Sec. 17. Heading change

The article heading of title 42, chapter 3, article 12, Arizona Revised Statutes, is changed from "TOBACCO PRODUCTS OTHER THAN CIGARETTES" to "TOBACCO PRODUCTS OTHER THAN CIGARETTES, NICOTINE PRODUCTS AND VAPOR PRODUCTS".

Sec. 18. Section 42-3501, Arizona Revised Statutes, is amended to read:

42-3501. Return and payment by distributors of tobacco products, nicotine products or vapor products other than cigarettes

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

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

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

1. The amount of tobacco products other than cigarettes, NICOTINE PRODUCTS OR VAPOR PRODUCTS received in this state during the month in which the tax accrues.

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

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

D. The distributor shall deliver the return, together with a remittance of the amount of the tax due, to the department.

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

Sec. 19. Section 42-3502, Arizona Revised Statutes, is amended to read:

42-3502. Transport of untaxed other tobacco products, nicotine products or vapor products prohibited; exceptions; definition

A. Except as allowed in section 42-3403, a person may not hold, store or transport untaxed other tobacco products, NICOTINE PRODUCTS OR

VAPOR PRODUCTS for sale or distribution in this state in any vehicle.

B. This section does not apply to either of the following:

1. A vehicle that is owned, operated or contracted by a person who holds a valid license issued under section 42-3401 and is transporting untaxed other tobacco products, NICOTINE PRODUCTS OR VAPOR PRODUCTS from one to another of the licensee's places of business listed on its application.

2. A vehicle that is transporting untaxed other tobacco products, NICOTINE PRODUCTS OR VAPOR PRODUCTS to a licensed distributor as part of a lawful sale or in interstate commerce to a person lawfully operating as a manufacturer, distributor or retailer of other tobacco products, NICOTINE PRODUCTS OR VAPOR PRODUCTS.

C. For the purposes of this section, "untaxed other tobacco products, NICOTINE PRODUCTS OR VAPOR PRODUCTS" means other tobacco products, NICOTINE PRODUCTS OR VAPOR PRODUCTS on which applicable taxes have not been remitted pursuant to this chapter.

Sec. 20. Title 42, chapter 3, article 12, Arizona Revised Statutes, is amended by adding section 42-3504, to read:

42-3504. Acquisition and possession of untaxed nicotine products and vapor products

A. A PERSON, OTHER THAN A MANUFACTURER OR AN IMPORTER SHIPPING INTO THIS STATE, SHALL BE LICENSED AS A DISTRIBUTOR IF THE PERSON ACQUIRES OR POSSESSES UNTAXED NICOTINE PRODUCTS OR VAPOR PRODUCTS FOR SALE, BARTER OR EXCHANGE OR FOR ANY OTHER PURPOSE BESIDES OR IN ADDITION TO PERSONAL USE OR CONSUMPTION IN THIS STATE, INCLUDING INDIAN RESERVATIONS IN THIS STATE.

B. A DISTRIBUTOR SHALL OBTAIN NICOTINE PRODUCTS AND VAPOR PRODUCTS ONLY FROM A MANUFACTURER OR AN IMPORTER OR A DISTRIBUTER WITH A CURRENT LICENSE ISSUED UNDER SECTION 42-3401.

Sec. 21. Exemption from rulemaking

Notwithstanding any other law, for the purposes of this act, the department of revenue is exempt from the rulemaking requirements of title 41, chapter 6, Arizona Revised Statutes, for one year after the effective date of this act.

Sec. 22. Applicability

This act applies to taxable periods beginning on or after December 31, 2025.

Sec. 23. Requirements for enactment; two-thirds vote

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