

REFERENCE TITLE: property tax; residential property

State of Arizona  
House of Representatives  
Fifty-seventh Legislature  
Second Regular Session  
2026

## **HB 2394**

Introduced by  
Representatives Biasiucci: Hernandez A, Hernandez C, Peña, Taylor, Volk,  
Willoughby

### AN ACT

AMENDING SECTIONS 42-5075, 42-5076, 42-12001, 42-12054 AND 42-12056,  
ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 11, ARTICLE 3,  
ARIZONA REVISED STATUTES, BY ADDING SECTION 42-11134; RELATING TO PROPERTY  
TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5075, Arizona Revised Statutes, is amended to  
3 read:

4 42-5075. Prime contracting classification; exemptions;  
5 definitions

6 A. The prime contracting classification is comprised of the  
7 business of prime contracting and the business of manufactured building  
8 dealer. Sales for resale to another manufactured building dealer are not  
9 subject to tax. Sales for resale do not include sales to a lessor of  
10 manufactured buildings. The sale of a used manufactured building is not  
11 taxable under this chapter. The prime contracting classification does not  
12 include any work or operation performed by a person that is not required  
13 to be licensed by the registrar of contractors pursuant to section  
14 32-1121.

15 B. The tax base for the prime contracting classification is  
16 sixty-five percent of the gross proceeds of sales or gross income derived  
17 from the business. The following amounts shall be deducted from the gross  
18 proceeds of sales or gross income before computing the tax base:

19 1. The sales price of land, which shall not exceed the fair market  
20 value.

21 2. Sales and installation of groundwater measuring devices required  
22 under section 45-604 and groundwater monitoring wells required by law,  
23 including monitoring wells installed for acquiring information for a  
24 permit required by law.

25 3. The sales price of furniture, furnishings, fixtures, appliances  
26 and attachments that are not incorporated as component parts of or  
27 attached to a manufactured building or the setup site. The sale of such  
28 items may be subject to the taxes imposed by article 1 of this chapter  
29 separately and distinctly from the sale of the manufactured building.

30 4. The gross proceeds of sales or gross income received from a  
31 contract entered into for the modification of any building, highway, road,  
32 railroad, excavation, manufactured building or other structure, project,  
33 development or improvement located in a military reuse zone for providing  
34 aviation or aerospace services or for a manufacturer, assembler or  
35 fabricator of aviation or aerospace products within an active military  
36 reuse zone after the zone is initially established or renewed under  
37 section 42-1301. To be eligible to qualify for this deduction, before  
38 beginning work under the contract, the prime contractor must have applied  
39 for a letter of qualification from the department of revenue.

40 5. The gross proceeds of sales or gross income derived from a  
41 contract to construct a qualified environmental technology manufacturing,  
42 producing or processing facility, as described in section 41-1514.02, and  
43 from subsequent construction and installation contracts that begin within  
44 ten years after the start of initial construction. To qualify for this  
45 deduction, before beginning work under the contract, the prime contractor

1 must obtain a letter of qualification from the department of revenue. This  
2 paragraph shall apply for ten full consecutive calendar or fiscal years  
3 after the start of initial construction.

4 6. The gross proceeds of sales or gross income from a contract to  
5 provide for one or more of the following actions, or a contract for site  
6 preparation, constructing, furnishing or installing machinery, equipment  
7 or other tangible personal property, including structures necessary to  
8 protect exempt incorporated materials or installed machinery or equipment,  
9 and tangible personal property incorporated into the project, to perform  
10 one or more of the following actions in response to a release or suspected  
11 release of a hazardous substance, pollutant or contaminant from a facility  
12 to the environment, unless the release was authorized by a permit issued  
13 by a governmental authority:

14 (a) Actions to monitor, assess and evaluate such a release or a  
15 suspected release.

16 (b) Excavation, removal and transportation of contaminated soil and  
17 its treatment or disposal.

18 (c) Treatment of contaminated soil by vapor extraction, chemical or  
19 physical stabilization, soil washing or biological treatment to reduce the  
20 concentration, toxicity or mobility of a contaminant.

21 (d) Pumping and treatment or in situ treatment of contaminated  
22 groundwater or surface water to reduce the concentration or toxicity of a  
23 contaminant.

24 (e) The installation of structures, such as cutoff walls or caps,  
25 to contain contaminants present in groundwater or soil and prevent them  
26 from reaching a location where they could threaten human health or welfare  
27 or the environment.

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

33 7. The gross proceeds of sales or gross income that is derived from  
34 a contract for the installation, assembly, repair or maintenance of  
35 machinery, equipment or other tangible personal property that is either  
36 deducted from the tax base of the retail classification under section  
37 42-5061, subsection B or that is exempt from use tax under section  
38 42-5159, subsection B and that has independent functional utility,  
39 pursuant to the following provisions:

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

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

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

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

9 (b) The deduction provided in this paragraph does not include gross  
10 proceeds of sales or gross income from the portion of any contracting  
11 activity that consists of the development of, or modification to, real  
12 property in order to facilitate the installation, assembly, repair,  
13 maintenance or removal of machinery, equipment or other tangible personal  
14 property that is either deducted from the tax base of the retail  
15 classification under section 42-5061, subsection B or exempt from use tax  
16 under section 42-5159, subsection B.

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

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

24 (i) Assembling the machinery, equipment or other tangible personal  
25 property.

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

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

31 (iv) Stabilizing or protecting the machinery, equipment or other  
32 tangible personal property during operation by bolting, burying or  
33 performing other similar nonpermanent connections to either real property  
34 or real property improvements.

35 8. The gross proceeds of sales or gross income attributable to the  
36 purchase of machinery, equipment or other tangible personal property that  
37 is exempt from or deductible from transaction privilege and use tax under:

38 (a) Section 42-5061, subsection A, paragraph 25, 29 or 58.

39 (b) Section 42-5061, subsection B.

40 (c) Section 42-5159, subsection A, paragraph 13, subdivision (a),  
41 (b), (c), (d), (e), (f), (j), (k), (m) or (n) or paragraph 55.

42 (d) Section 42-5159, subsection B.

43 9. The gross proceeds of sales or gross income received from a  
44 contract for the construction of an environmentally controlled facility

1 for the raising of poultry for the production of eggs and the sorting,  
2 cooling and packaging of eggs.

3 10. The gross proceeds of sales or gross income that is derived  
4 from a contract entered into with a person who is engaged in the  
5 commercial production of livestock, livestock products or agricultural,  
6 horticultural, viticultural or floricultural crops or products in this  
7 state for the modification of any building, highway, road, excavation,  
8 manufactured building or other structure, project, development or  
9 improvement used directly and primarily to prevent, monitor, control or  
10 reduce air, water or land pollution.

11 11. The gross proceeds of sales or gross income that is derived  
12 from the installation, assembly, repair or maintenance of clean rooms that  
13 are deducted from the tax base of the retail classification pursuant to  
14 section 42-5061, subsection B, paragraph 17.

15 12. For taxable periods beginning from and after June 30, 2001, the  
16 gross proceeds of sales or gross income derived from a contract entered  
17 into for the construction of a residential apartment housing facility that  
18 qualifies for a federal housing subsidy for low-income persons over  
19 sixty-two years of age and that is owned by a nonprofit charitable  
20 organization that has qualified under section 501(c)(3) of the internal  
21 revenue code.

22 13. For taxable periods beginning from and after December 31, 1996  
23 and ending before January 1, 2017, the gross proceeds of sales or gross  
24 income derived from a contract to provide and install a solar energy  
25 device. The contractor shall register with the department as a solar  
26 energy contractor. By registering, the contractor acknowledges that it  
27 will make its books and records relating to sales of solar energy devices  
28 available to the department for examination.

29 14. The gross proceeds of sales or gross income derived from a  
30 contract entered into for the construction of a launch site, as defined in  
31 14 Code of Federal Regulations section 401.5.

32 15. The gross proceeds of sales or gross income derived from a  
33 contract entered into for the construction of a domestic violence shelter  
34 that is owned and operated by a nonprofit charitable organization that has  
35 qualified under section 501(c)(3) of the internal revenue code.

36 16. The gross proceeds of sales or gross income derived from  
37 contracts to perform postconstruction treatment of real property for  
38 termite and general pest control, including wood-destroying organisms.

39 17. The gross proceeds of sales or gross income received from  
40 contracts entered into before July 1, 2006 for constructing a state  
41 university research infrastructure project if the project has been  
42 reviewed by the joint committee on capital review before the university  
43 enters into the construction contract for the project. For the purposes  
44 of this paragraph, "research infrastructure" has the same meaning  
45 prescribed in section 15-1670.

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

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

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

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

23           (c) "Development fees" means fees imposed to offset capital costs  
24 of providing public infrastructure, public safety or other public services  
25 to a development and authorized pursuant to section 9-463.05, section  
26 11-1102 or title 48 regardless of the jurisdiction to which the fees are  
27 paid.

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

33           (a) "Mixed waste processing facility" means a solid waste facility  
34 that is owned, operated or used for the treatment, processing or disposal  
35 of solid waste, recyclable solid waste, very small quantity generator  
36 waste or household hazardous waste. For the purposes of this subdivision,  
37 "very small quantity generator waste", "household hazardous waste" and  
38 "solid waste facility" have the same meanings prescribed in section  
39 49-701, except that solid waste facility does include a site that stores,  
40 treats or processes paper, glass, wood, cardboard, household textiles,  
41 scrap metal, plastic, vegetative waste, aluminum, steel or other  
42 recyclable material.

43           (b) "Municipal solid waste landfill" has the same meaning  
44 prescribed in section 49-701.

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

4 (d) "Renewable energy" means usable energy, including electricity,  
5 fuels, gas and heat, produced through the conversion of energy provided by  
6 sunlight, water, wind, geothermal, heat, biomass, biogas, landfill gas or  
7 another nonfossil renewable resource.

8 21. The gross proceeds of sales or gross income derived from a  
9 contract to install containment structures. For the purposes of this  
10 paragraph, "containment structure" means a structure that prevents,  
11 monitors, controls or reduces noxious or harmful discharge into the  
12 environment.

13 C. Entitlement to the deduction pursuant to subsection B, paragraph  
14 7 of this section is subject to the following provisions:

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

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

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

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

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

39 4. If a prime contractor is entitled to a deduction by complying  
40 with paragraph 1 of this subsection, the department may require the  
41 purchaser who caused the execution of the certificate to establish the  
42 accuracy and completeness of the information required to be contained in  
43 the certificate that would entitle the prime contractor to the deduction.  
44 If the purchaser cannot establish the accuracy and completeness of the  
45 information, the purchaser is liable in an amount equal to any tax,

1 penalty and interest that the prime contractor would have been required to  
 2 pay under article 1 of this chapter if the prime contractor had not  
 3 complied with paragraph 1 of this subsection. Payment of the amount under  
 4 this paragraph exempts the purchaser from liability for any tax imposed  
 5 under article 4 of this chapter. The amount shall be treated as a  
 6 transaction privilege tax to the purchaser and as tax revenues collected  
 7 from the prime contractor in order to designate the distribution base for  
 8 purposes of section 42-5029.

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

16 E. Amounts received by a contractor for a project are excluded from  
 17 the contractor's gross proceeds of sales or gross income derived from the  
 18 business if the person who hired the contractor executes and provides a  
 19 certificate to the contractor stating that the person providing the  
 20 certificate is a prime contractor and is liable for the tax under article  
 21 1 of this chapter. The department shall prescribe the form of the  
 22 certificate. If the contractor has reason to believe that the information  
 23 contained on the certificate is erroneous or incomplete, the department  
 24 may disregard the certificate. If the person who provides the certificate  
 25 is not liable for the tax as a prime contractor, that person is  
 26 nevertheless deemed to be the prime contractor in lieu of the contractor  
 27 and is subject to the tax under this section on the gross receipts or  
 28 gross proceeds received by the contractor.

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

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

41 H. For the purposes of section 42-5032.02, from and after  
 42 September 30, 2013, the department shall separately account for revenues  
 43 reported and collected under the prime contracting classification from any  
 44 prime contractor engaged in the construction of any buildings and  
 45 associated improvements that are for the benefit of a manufacturing

1 facility. For the purposes of this subsection, "associated improvements"  
2 and "manufacturing facility" have the same meanings prescribed in section  
3 42-5032.02.

4 I. For the purposes of section 42-5032.03 and subject to section  
5 48-4238, beginning October 1, 2025 and each month thereafter through  
6 December 31, 2055, the department shall separately account for revenues  
7 reported and collected under the prime contracting classification from any  
8 prime contractor engaged in the construction of any buildings and  
9 associated improvements that are for the benefit of a major league  
10 baseball facility or an adjacent building that is owned by a county  
11 stadium district pursuant to title 48, chapter 26 and operated by the  
12 county stadium district or the professional baseball franchise  
13 organization that occupies the major league baseball facility or adjacent  
14 building. For the purposes of this subsection, "adjacent building" and  
15 "major league baseball facility" have the same meanings prescribed in  
16 section 48-4201.

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

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

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

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

1 N. The following apply in determining the taxable situs of sales of  
2 manufactured buildings:

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

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

10 3. For sales in this state where the manufactured building dealer  
11 contracts to deliver the building to a setup site that is outside this  
12 state, the situs is outside this state and the transaction is excluded  
13 from tax.

14 0. The gross proceeds of sales or gross income attributable to a  
15 written contract for design phase services or professional services,  
16 executed before modification begins and with terms, conditions and pricing  
17 of all of these services separately stated in the contract from those for  
18 construction phase services, is not subject to tax under this section,  
19 regardless of whether the services are provided sequential to or  
20 concurrent with prime contracting activities that are subject to tax under  
21 this section. This subsection does not include the gross proceeds of  
22 sales or gross income attributable to construction phase services. For  
23 the purposes of this subsection:

24 1. "Construction phase services" means services for the execution  
25 and completion of any modification, including the following:

26 (a) Administration or supervision of any modification performed on  
27 the project, including team management and coordination, scheduling, cost  
28 controls, submittal process management, field management, safety program,  
29 close-out process and warranty period services.

30 (b) Administration or supervision of any modification performed  
31 pursuant to a punch list. For the purposes of this subdivision, "punch  
32 list" means minor items of modification work performed after substantial  
33 completion and before final completion of the project.

34 (c) Administration or supervision of any modification performed  
35 pursuant to change orders. For the purposes of this subdivision, "change  
36 order" means a written instrument issued after execution of a contract for  
37 modification work, providing for all of the following:

38 (i) The scope of a change in the modification work, contract for  
39 modification work or other contract documents.

40 (ii) The amount of an adjustment, if any, to the guaranteed maximum  
41 price as set in the contract for modification work. For the purposes of  
42 this item, "guaranteed maximum price" means the amount guaranteed to be  
43 the maximum amount due to a prime contractor for the performance of all  
44 modification work for the project.

1 (iii) The extent of an adjustment, if any, to the contract time of  
2 performance set forth in the contract.

3 (d) Administration or supervision of any modification performed  
4 pursuant to change directives. For the purposes of this subdivision,  
5 "change directive" means a written order directing a change in  
6 modification work before agreement on an adjustment of the guaranteed  
7 maximum price or contract time.

8 (e) Inspection to determine the dates of substantial completion or  
9 final completion.

10 (f) Preparation of any manuals, warranties, as-built drawings,  
11 spares or other items the prime contractor must furnish pursuant to the  
12 contract for modification work. For the purposes of this subdivision,  
13 "as-built drawing" means a drawing that indicates field changes made to  
14 adapt to field conditions, field changes resulting from change orders or  
15 buried and concealed installation of piping, conduit and utility services.

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

19 (i) Master schedule updates.

20 (ii) Modification work cash flow projection updates.

21 (iii) Site reports made on a periodic basis.

22 (iv) Identification of discrepancies, conflicts or ambiguities in  
23 modification work documents that require resolution.

24 (v) Identification of any health and safety issues that have arisen  
25 in connection with the modification work.

26 (h) Preparation of daily logs of modification work, including  
27 documentation of personnel, weather conditions and on-site occurrences.

28 (i) Preparation of any submittals or shop drawings used by the  
29 prime contractor to illustrate details of the modification work performed.

30 (j) Administration or supervision of any other activities for which  
31 a prime contractor receives a certificate for payment or certificate for  
32 final payment based on the progress of modification work performed on the  
33 project.

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

37 (a) Evaluating surveys, reports, test results or any other  
38 information on-site conditions for the project, including physical  
39 characteristics, legal limitations and utility locations for the site.

40 (b) Evaluating any criteria or programming objectives for the  
41 project to ascertain requirements for the project, such as physical  
42 requirements affecting cost or projected utilization of the project.

1 (c) Preparing drawings and specifications for architectural program  
2 documents, schematic design documents, design development documents,  
3 modification work documents or documents that identify the scope of or  
4 materials for the project.

5 (d) Preparing an initial schedule for the project, excluding the  
6 preparation of updates to the master schedule after modification work has  
7 begun.

8 (e) Preparing preliminary estimates of costs of modification work  
9 before completion of the final design of the project, including an  
10 estimate or schedule of values for any of the following:

11 (i) Labor, materials, machinery and equipment, tools, water, heat,  
12 utilities, transportation and other facilities and services used in the  
13 execution and completion of modification work, regardless of whether they  
14 are temporary or permanent or whether they are incorporated in the  
15 modifications.

16 (ii) The cost of labor and materials to be furnished by the owner  
17 of the real property.

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

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

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

26 (vi) Any bond and insurance premiums.

27 (vii) Any applicable taxes.

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

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

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

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

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

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

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

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

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

37 2. Any special taxing district not specified in paragraph 1 of this  
38 subsection if the district does not substantially engage in the  
39 modification, maintenance, repair, replacement or alteration of surface or  
40 subsurface improvements to land.

41 R. Notwithstanding subsection S, paragraph 10 of this section, a  
42 person owning real property who enters into a contract for sale of the  
43 real property, who is responsible to the new owner of the property for  
44 modifications made to the property in the period subsequent to the  
45 transfer of title and who receives a consideration for the modifications

1 is considered a prime contractor solely for purposes of taxing the gross  
2 proceeds of sale or gross income received for the modifications made  
3 subsequent to the transfer of title. The original owner's gross proceeds  
4 of sale or gross income received for the modifications shall be determined  
5 according to the following methodology:

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

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

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

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

30 S. For the purposes of this section:

31 1. "Alteration" means an activity or action that causes a direct  
32 physical change to existing property. For the purposes of this paragraph:

33 (a) For existing property that is properly classified as CLASS ONE  
34 PROPERTY UNDER SECTION 42-12001, PARAGRAPH 15, class two property under  
35 section 42-12002, paragraph 1, subdivision (c) or paragraph 2, subdivision  
36 (c) and that is used for residential purposes, class three property under  
37 section 42-12003 or class four property under section 42-12004, this  
38 paragraph does not apply if the contract amount is more than twenty-five  
39 percent of the most recent full cash value established under chapter 13,  
40 article 2 of this title as of the date of any bid for the work or the date  
41 of the contract, whichever value is higher.

1 (b) For all existing property other than existing property  
2 described in subdivision (a) of this paragraph, this paragraph does not  
3 apply if the contract amount is more than \$750,000.

4 (c) Project elements may not be artificially separated from a  
5 contract to cause a project to qualify as an alteration. The department  
6 has the burden of proof that project elements have been artificially  
7 separated from a contract.

8 (d) If a project for which the owner and the person performing the  
9 work reasonably believed, at the inception of the contract, would be  
10 treated as an alteration under this paragraph and, on completion of the  
11 project, the project exceeded the applicable threshold described in either  
12 subdivision (a) or (b) of this paragraph by not more than twenty-five  
13 percent of the applicable threshold for any reason, the work performed  
14 under the contract qualifies as an alteration.

15 (e) A change order that directly relates to the scope of work of  
16 the original contract shall be treated as part of the original contract,  
17 and the contract amount shall include any amount attributable to a change  
18 order that directly relates to the scope of work of the original contract.

19 (f) Alteration does not include maintenance, repair or replacement.

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

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

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

34 5. "Manufactured building dealer" means a dealer who either:

35 (a) Is licensed pursuant to title 41, chapter 37, article 4 and who  
36 sells manufactured buildings to the final consumer.

37 (b) Supervises, performs or coordinates the excavation and  
38 completion of site improvements or the setup of a manufactured building,  
39 including the contracting, if any, with any subcontractor or specialty  
40 contractor for the completion of the contract.

41 6. "Modification" means construction, grading and leveling ground,  
42 wreckage or demolition. Modification does not include:

43 (a) Any project described in subsection P of this section.

1 (b) Any wreckage or demolition of existing property, or any other  
2 activity that is a necessary component of a project described in  
3 subsection P of this section.

4 (c) Any mobilization or demobilization related to a project  
5 described in subsection P of this section, such as the erection or removal  
6 of temporary facilities to be used by those persons working on the  
7 project.

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

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

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

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

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

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

1           Sec. 2. Section 42-5076, Arizona Revised Statutes, is amended to  
2 read:

3           42-5076. Online lodging marketplace classification;  
4                                   definitions

5           A. The online lodging marketplace classification is comprised of  
6 the business of operating an online lodging marketplace.

7           B. The tax base for the online lodging marketplace classification  
8 is the gross proceeds of sales or gross income derived from the business  
9 measured by the total amount charged for an online transient lodging  
10 transaction by the online lodging operator.

11           C. Through December 31, 2018, the online lodging marketplace  
12 classification does not include any online lodging marketplace that has  
13 not entered into an agreement with the department to register for, or has  
14 not otherwise obtained from the department, a license to collect tax  
15 pursuant to section 42-5005, subsection L.

16           D. The tax base for the online lodging marketplace classification  
17 does not include the gross proceeds of sales or gross income derived from  
18 charges to an occupant who is a transient as defined in section 42-5070  
19 for the occupancy of any lodging accommodation in this state that is  
20 classified for property tax purposes under section 42-12001.

21           E. For the purposes of this section:

22           1. "Online lodging marketplace" means a person that provides a  
23 digital platform for compensation through which an unaffiliated third  
24 party offers to rent lodging accommodations in this state to an occupant,  
25 including a transient, as defined in section 42-5070, and the  
26 accommodations are ~~not~~ classified for property tax purposes under section  
27 42-12001, **PARAGRAPH 15 OR SECTION 42-12003 OR 42-12004**. For the purposes  
28 of this paragraph:

29           (a) "Lodging accommodations" means any space offered to the public  
30 for lodging, including any hotel, motel, inn, tourist home or house, dude  
31 ranch, resort, campground, studio or bachelor hotel, lodging house,  
32 rooming house, residential home, apartment house, dormitory, public or  
33 private club, mobile home or house trailer at a fixed location in this  
34 state or other similar structure or space.

35           (b) "Unaffiliated third party" means a person that is not owned or  
36 controlled, directly or indirectly, by the same interests.

37           2. "Online lodging operator" means a person that is engaged in the  
38 business of renting to an occupant, including a transient as defined in  
39 section 42-5070, any lodging accommodation in this state offered through  
40 an online lodging marketplace.

41           3. "Online lodging transaction" means a charge to an occupant,  
42 including a transient as defined in section 42-5070, by an online lodging  
43 operator for the occupancy of any lodging accommodation in this state and  
44 includes an online transient lodging transaction.

1           4. "Online transient lodging transaction" means a charge to an  
2 occupant who is a transient as defined in section 42-5070 by an online  
3 lodging operator for the occupancy of any lodging accommodation in this  
4 state.

5           Sec. 3. Section 42-12001, Arizona Revised Statutes, is amended to  
6 read:

7           42-12001. Class one property

8           For THE purposes of taxation, class one is established consisting of  
9 the following subclasses:

10           1. Producing mines and mining claims, personal property used on  
11 mines and mining claims, improvements to mines and mining claims and mills  
12 and smelters operated in conjunction with mines and mining claims that are  
13 valued at full cash value pursuant to section 42-14053.

14           2. Standing timber that is valued at full cash value.

15           3. Real and personal property of gas distribution companies,  
16 electric transmission companies, electric distribution companies,  
17 combination gas and electric transmission and distribution companies, and  
18 companies engaged in ~~the generation of~~ GENERATING electricity that are  
19 valued at full cash value pursuant to section 42-14151.

20           4. Real and personal property of airport fuel delivery companies  
21 that are valued pursuant to section 42-14503.

22           5. Real and personal property that is used by producing oil, gas  
23 and geothermal resource interests that are valued at full cash value  
24 pursuant to section 42-14102.

25           6. Real and personal property of water, sewer and wastewater  
26 utility companies that are valued at full cash value pursuant to section  
27 42-14151.

28           7. Real and personal property of pipeline companies that are valued  
29 at full cash value pursuant to section 42-14201.

30           8. Real and personal property of shopping centers that are valued  
31 at full cash value or pursuant to chapter 13, article 5 of this title, as  
32 applicable, other than property that is included in class nine.

33           9. Real and personal property of golf courses that are valued at  
34 full cash value or pursuant to chapter 13, article 4 of this title.

35           10. All property, both real and personal, of manufacturers,  
36 assemblers or fabricators, other than property that is specifically  
37 included in another class described in this article, that is valued under  
38 this title.

39           11. Real and personal property that is used in communications  
40 transmission facilities and that provides public telephone or  
41 telecommunications exchange or interexchange access for compensation to  
42 effect two-way communication to, from, through or within this state.

43           12. Real property and improvements that are devoted to any other  
44 commercial or industrial use, other than property that is specifically

1 included in another class described in this article, and that are valued  
2 at full cash value.

3 13. Personal property that is devoted to any other commercial or  
4 industrial use, other than property that is specifically included in  
5 another class described in this article, and that is valued at full cash  
6 value.

7 14. Real and personal property of electric cooperatives that are  
8 valued at full cash value pursuant to section 42-14159.

9 15. REAL AND PERSONAL PROPERTY AND IMPROVEMENTS TO THE PROPERTY  
10 THAT ARE USED FOR RESIDENTIAL PURPOSES AND ARE ALL OF THE FOLLOWING:

11 (a) OWNED BY A CORPORATION OR A LIMITED LIABILITY COMPANY OR AN  
12 AFFILIATE OF THE CORPORATION OR THE LIMITED LIABILITY COMPANY THAT OWNS  
13 MORE THAN FIFTY PROPERTIES IN THE COUNTY.

14 (b) SOLELY LEASED OR RENTED, INCLUDING LEASED OR RENTED TO LODGERS.

15 (c) NOT INCLUDED IN CLASS TWO, THREE, FOUR, SIX, SEVEN OR EIGHT.

16 (d) VALUED AT FULL CASH VALUE.

17 Sec. 4. Section 42-12054, Arizona Revised Statutes, is amended to  
18 read:

19 42-12054. Change in classification of owner-occupied  
20 residence

21 A. If a person purchases or converts property that is listed as  
22 class one pursuant to section 42-12001, paragraph 12, ~~OR~~ 13 OR 15, class  
23 two or class four pursuant to article 1 of this chapter and occupies the  
24 property as the person's primary residence, the person may have the  
25 classification reviewed for change to class three from the date of  
26 conversion and occupancy as a primary residence and may appeal from the  
27 decision resulting from the review in the same manner as provided by law  
28 for review of a valuation for ad valorem property taxes and appeal from  
29 that review.

30 B. If a person purchases or converts property that is listed as  
31 class one pursuant to section 42-12001, paragraph 12, ~~OR~~ 13 OR 15, class  
32 two or class four pursuant to article 1 of this chapter and the property  
33 is occupied by a member of the owner's immediate family as described in  
34 section 42-12053, the person may have the classification reviewed for  
35 change to class three from the date of occupancy and may appeal the  
36 decision resulting from the review in the same manner as provided by law  
37 for review of a valuation for ad valorem property taxes and appeal from  
38 that review.

39 C. If a person makes such a conversion or occupancy or appeals the  
40 classification after the county assessor has closed the rolls, the person  
41 may petition the county board of supervisors to change the classification  
42 and reduce the assessed valuation from the date of conversion or  
43 occupancy.

1 D. The board of supervisors shall entertain the petition in the  
2 same manner as a board of equalization hears a request for reduction in  
3 valuation.

4 E. The petitioner may appeal the board of supervisors' decision in  
5 the same manner as provided in section 42-16111, except that the  
6 petitioner shall file the notice of appeal within fifteen days after the  
7 board's finding.

8 F. If the board of supervisors finds that the property is in fact  
9 the owner's primary residence and should be listed as class three  
10 property, the board shall change the classification on the roll and fix  
11 the assessed valuation from the date of occupancy. The amount of taxes  
12 that is assessed against the property shall be computed by applying the  
13 current tax rate to the original assessed valuation prorated for the  
14 portion of the tax year before the property was occupied plus the current  
15 tax rate applied to the reassessed value of the property prorated for the  
16 balance of the year.

17 G. The board of supervisors shall notify the department, assessor  
18 and county treasurer of the change in classification, the change in  
19 assessed valuation and the amount of tax assessed. The department and the  
20 assessor may appeal any such decision in the same manner as provided in  
21 section 42-16111. The assessor and treasurer shall note the change on  
22 their records, and the treasurer may issue a future tax credit, endorsed  
23 by the board, to the person whose property is liable for the tax. The tax  
24 credit shall be used on the next or several succeeding property tax  
25 assessments that the person may owe thereafter.

26 Sec. 5. Section 42-12056, Arizona Revised Statutes, is amended to  
27 read:

28 42-12056. Renewable energy systems valuation; definition

29 A. For properties THAT ARE subject to this chapter and that are  
30 CLASS ONE AS PRESCRIBED IN SECTION 42-12001, PARAGRAPH 15, class three as  
31 ~~defined~~ PRESCRIBED in section 42-12003 or class four as ~~defined~~ PRESCRIBED  
32 in section 42-12004, renewable energy systems and any other device or  
33 system designed primarily ~~for the production of~~ TO PRODUCE renewable  
34 energy in which the majority of the energy is consumed on-site, ~~are~~  
35 considered to add no value to the property.

36 B. For the purposes of this section, "renewable energy systems"  
37 means electric generation systems and electric transmission and  
38 distribution SYSTEMS that ~~is~~ ARE used or useful for ~~the generation,~~  
39 ~~storage, transmission~~ GENERATING, STORING, TRANSMITTING or ~~distribution of~~  
40 DISTRIBUTING electric power, energy or fuel derived from solar, wind or  
41 other nonpetroleum renewable sources, including materials and supplies.

1           Sec. 6. Title 42, chapter 11, article 3, Arizona Revised Statutes,  
2 is amended by adding section 42-11134, to read:

3           42-11134. Exemption for primary residences; affidavit

4           A. RESIDENTIAL PROPERTY THAT IS NOT SUBJECT TO A MORTGAGE, DEED OF  
5 TRUST OR OTHER SIMILAR ENCUMBRANCE AND THAT IS OWNED BY A PERSON WHO IS AT  
6 LEAST SIXTY-TWO YEARS OF AGE AND WHO HAS OCCUPIED THE PROPERTY AS THE  
7 PERSON'S PRIMARY RESIDENCE FOR AT LEAST THE TWO YEARS PRIOR TO CLAIMING  
8 THE EXEMPTION IS EXEMPT FROM TAXATION.

9           B. THE OWNER OF THE PROPERTY SHALL INITIALLY ESTABLISH  
10 QUALIFICATION FOR EXEMPTION UNDER THIS SECTION BY FILING AN AFFIDAVIT WITH  
11 THE COUNTY ASSESSOR UNDER SECTION 42-11152. THEREAFTER, THE OWNER IS NOT  
12 REQUIRED TO FILE AN AFFIDAVIT UNDER SECTION 42-11152 UNLESS:

13           1. THE PROPERTY IS NO LONGER, OR WILL NOT BE, USED AS THE OWNER'S  
14 PRIMARY RESIDENCE.

15           2. ANY INTEREST IN THE TITLE TO THE PROPERTY IS CONVEYED TO A NEW  
16 OWNER.

17           Sec. 7. Applicability

18           Sections 42-5075, 42-5076, 42-12001, 42-12054 and 42-12056, Arizona  
19 Revised Statutes, as amended by this act, apply to tax years beginning  
20 from and after December 31, 2026.

21           Sec. 8. Conditional enactment

22           Section 42-11134, Arizona Revised Statutes, as added by this act,  
23 does not become effective unless the Constitution of Arizona is amended by  
24 a vote of the people at the next general election by passage of House  
25 Concurrent Resolution \_\_\_\_\_, fifty-seventh legislature, second regular  
26 session, relating to property tax exemptions.