REFERENCE TITLE: taxation omnibus

State of Arizona
Senate
Fifty-seventh Legislature
Second Regular Session
2026

SB 1845

Introduced by
Senators Farnsworth: Kavanagh (with permission of Committee on Rules)

AN ACT

AMENDING SECTIONS 20-224 AND 20-224.01, ARIZONA REVISED STATUTES; REPEALING SECTION 20-224.03, ARIZONA REVISED STATUTES; AMENDING SECTIONS 20-837, 20-1010, 20-1060, 20-1097.07, 28-2154.01 AND 41-1520, ARIZONA REVISED STATUTES; REPEALING SECTION 41-1525, ARIZONA REVISED STATUTES; AMENDING SECTIONS 42-1001, 42-2003, 42-5009 AND 42-5029, ARIZONA REVISED STATUTES; REPEALING SECTION 42-5031, ARIZONA REVISED STATUTES; AMENDING SECTIONS 42-5061 AND 42-5071, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2025, CHAPTER 135, SECTION 2 AND CHAPTER 247, SECTION 2; REPEALING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2025, CHAPTER 251, SECTION 13; AMENDING SECTIONS 42-6009, 43-105, 43-222, 43-301, 43-323 AND 43-1022, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 3, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1030; AMENDING SECTIONS 43-1041, 43-1042 AND 43-1073.01, ARIZONA REVISED STATUTES; REPEALING SECTION 43-1074, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1074.01,

ARIZONA REVISED STATUTES; REPEALING SECTIONS 43-1083 AND 43-1083.02, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1083.03, 43-1121 AND 43-1122, ARIZONA REVISED STATUTES; REPEALING SECTIONS 43-1161 AND 43-1164.03, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1164.04, 43-1164.05 AND 43-1168, ARIZONA REVISED STATUTES; REPEALING SECTION 43-1170, ARIZONA REVISED STATUTES; AMENDING TITLE 43, ARIZONA REVISED STATUTES, BY ADDING CHAPTER 18; AMENDING SECTIONS 48-4203, 48-4204, 48-4231.01, 48-4231.02 AND 48-4237, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

Section 1. Section 20-224, Arizona Revised Statutes, is amended to read:

20-224. Premium tax; reports

A. On or before March 1 of each year, each authorized domestic insurer, each other insurer and each formerly authorized insurer referred to in section 20-206, subsection B shall file with the director a report in a form prescribed by the director showing total direct premium income including policy membership and other fees and all other considerations for insurance from all classes of business whether designated as a premium or otherwise received by it during the preceding calendar year on account of policies and contracts covering property, subjects or risks located, resident or to be performed in this state, after deducting from such total direct premium income applicable cancellations, returned premiums, the amount of reduction in or refund of premiums allowed to industrial life policyholders for payment of premiums direct to an office of the insurer and all policy dividends, refunds, savings coupons and other similar returns paid or credited to policyholders within this state and not reapplied as premiums for new, additional or extended insurance. No deduction shall be made of the cash surrender values of policies or contracts. Considerations received on annuity contracts, as well as the unabsorbed portion of any premium deposit, shall not be included in total direct premium income, and neither shall be subject to tax. The report shall separately indicate the total direct fire insurance premium income received from property located in the incorporated cities and towns certified by the office of the state fire marshal pursuant to section 9-951, subsection B, as procuring the services of a private fire company.

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

1. For fire insurance:

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

(b) On all other property, 2.2 percent.

2. For disability insurance, 2.0 percent.

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

4. For other insurance:

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

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

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

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

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

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

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

D. Eighty-five percent of the tax paid under this section by an insurer on account of premiums received for fire insurance shall be separately specified in the report and shall be apportioned in the manner provided by sections 9-951, 9-952 and 9-972, except that all of the tax so allocated to a fund of a municipality or fire district that has no volunteer firefighters or pension obligations to volunteer firefighters shall be appropriated to the account of the municipality or fire district in the public safety personnel retirement system and all of the tax so allocated to a fund of a municipality or fire district that has both full-time paid firefighters and volunteer firefighters or pension obligations to full-time paid firefighters or volunteer firefighters shall be appropriated to the account of the municipality or fire district in the public safety personnel retirement system where it shall be reallocated by actuarial procedures proportionately to the municipality or fire district for the account of the full-time paid firefighters and to the municipality or fire district for the account of the volunteer firefighters. A municipality or fire district shall provide to the public safety personnel retirement system all information that the system deems necessary to perform the reallocation prescribed by this section. A full accounting of the reallocation shall be forwarded to the municipality or fire district and its local boards.

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

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

G. Except for the tax paid on fire insurance premiums pursuant to subsections B and D of this section, an insurer may claim a premium tax credit if the insurer qualifies for a credit pursuant to section ~~20-224.03, 20-224.04,~~ 20-224.06 or 20-224.07.

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

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

J. For the purposes of:

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

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

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

Sec. 2. Section 20-224.01, Arizona Revised Statutes, is amended to read:

20-224.01. Additional premium tax; civil penalty

A. Coincident with ~~the~~ filing ~~of~~ the tax report as required in section 20-224, each insurer shall pay to the director, for deposit, pursuant to sections 35-146 and 35-147, a tax of .4312 percent of such net premiums received from all insurance carried for or on vehicles as defined in section 28-101, in addition to other applicable taxes.

B. The tax of .4312 percent of such net premiums received by the director and paid by an insurer on account of premiums received for insurance on certain vehicles as defined in section 28-101 shall be separately specified in the insurer's report required in section 20-224 and is appropriated to the public safety personnel retirement system and shall be transferred by the state treasurer to the board of trustees of the public safety personnel retirement system for deposit in the highway patrol account. If the tax received is greater than the amount necessary to fund the highway patrol account, ~~beginning in the 1991-1992 fiscal year~~ the state treasurer shall deposit the excess in the Arizona highway patrol fund established by section 41-1752 in any amount required by legislative appropriation.

C. An insurer shall report and pay the taxes required by this section in the manner prescribed by section 20-224. An insurer ~~who~~ THAT fails to pay the tax on or before the prescribed payment dates is subject to a civil penalty determined pursuant to section 20-225.

~~D. An insurer shall not claim a premium tax credit pursuant to section 20-224.03 for the premium taxes paid pursuant to this section.~~

Sec. 3. Repeal

Section 20-224.03, Arizona Revised Statutes, is repealed.

Sec. 4. Section 20-837, Arizona Revised Statutes, is amended to read:

20-837. Tax exemption; exceptions

~~A.~~ Every corporation doing business pursuant to this article is declared to be a nonprofit and benevolent institution and to be exempt from state, county, district, municipal and school taxes, including the taxes prescribed by this title, and excepting only the fees prescribed by section 20-167 and taxes on real and tangible personal property located within this state. Each corporation is subject to a state tax of 2.0 percent on net premiums that are received to effect or maintain the corporation's subscription contracts, except that the tax shall not apply with respect to any coverage concerning which the corporation's relationship is as administrative or fiscal agent for national, state or municipal government or any political subdivision or body thereof, and such tax shall not apply with respect to any premiums received from funds of national, state or municipal government or any political subdivision or body thereof. The tax shall be determined, filed and reported in the manner prescribed in section 20-224. The failure by a corporation to pay the tax on or before the prescribed payment dates results in a civil penalty determined pursuant to section 20-225.

~~B. A corporation may claim a premium tax credit if the corporation qualifies for a credit pursuant to section 20-224.03.~~

Sec. 5. Section 20-1010, Arizona Revised Statutes, is amended to read:

20-1010. Taxes

A. On the tax payment dates prescribed in section 20-224, each prepaid dental plan organization shall pay to the director for deposit, pursuant to sections 35-146 and 35-147, in a form prescribed by the director a tax for transacting a prepaid dental plan in the amount of 2.0 percent of prepaid net charges received from members.

B. The failure by an organization to pay the tax imposed by this section results in a civil penalty determined pursuant to section 20-225.

~~C. A prepaid dental plan organization may claim a premium tax credit if the organization qualifies for a credit pursuant to section 20-224.03.~~

Sec. 6. Section 20-1060, Arizona Revised Statutes, is amended to read:

20-1060. Taxes; exemption

A. Except as provided in subsection C of this section, on the tax payment dates prescribed in section 20-224, each health care services organization shall pay to the director for deposit, pursuant to sections 35-146 and 35-147, in a form prescribed by the director a tax for transacting a health care plan in the amount of 2.0 percent of net charges received from enrollees.

B. The failure by an organization to pay the tax imposed by this section results in a civil penalty determined pursuant to section 20-225.

C. Payments received by health care services organizations from the United States secretary of health and human services pursuant to a contract issued pursuant to 42 United States Code section 1395mm(g) are not taxable under this section.

~~D. A health care services organization may claim a premium tax credit if the organization qualifies for a credit pursuant to section 20-224.03.~~

Sec. 7. Section 20-1097.07, Arizona Revised Statutes, is amended to read:

20-1097.07. Fees and taxes

~~A.~~ Any prepaid legal insurance corporation licensed pursuant to this article shall pay those fees prescribed by section 20-167 and those taxes prescribed by section 20-224.

~~B. A prepaid legal insurance corporation may claim a premium tax credit if the corporation qualifies for a credit pursuant to section 20-224.03.~~

Sec. 8. Section 28-2154.01, Arizona Revised Statutes, is amended to read:

28-2154.01. Special ninety day nonresident registration permits; procedures

A. A dealer or an authorized third party that issues a special ninety day nonresident registration permit pursuant to section 28-2154 shall send an electronic record of the permit to the department through an authorized third party or through the department's authorized third-party electronic service provider.

B. The department, an authorized third party or a dealer shall not:

1. Issue, assign or deliver a special ninety day nonresident registration permit to any person unless the person does all of the following:

(a) Obtains the special ninety day nonresident registration permit pursuant to section 28-2154.

(b) Completes an affidavit in a form prescribed by the director pursuant to section 28-2154 or completes a form prescribed by section 42-5009, subsection H.

(c) Presents to the department, authorized third party or motor vehicle dealer a current valid driver license issued by another state indicating an address outside of this state.

(d) Provides any other information reasonably and uniformly required by the department of transportation pursuant to section 28-2154 or the department of revenue pursuant to section 42-5009, subsection H.

2. Issue and affix, as prescribed in subsection C of this section, a special ninety day nonresident registration permit unless the permit is recorded in the electronic records of the department.

C. A person who issues a special ninety day nonresident registration permit shall affix or insert, clearly and indelibly, on the face of each permit the dates of issuance and expiration and the make and vehicle identification number of the vehicle. The special ninety day nonresident registration permit shall not bear the name or address of the person who purchased the vehicle in a position that is legible from outside of the vehicle.

D. A dealer or authorized third party who issues a special ninety day nonresident registration permit shall maintain a record, in a form prescribed by the director, of all special ninety day nonresident registration permits issued by the dealer or authorized third party and a record of other information pertaining to the issuance of special ninety day nonresident registration permits that the department of transportation or the department of revenue requires.

E. The dealer or authorized third party shall keep each record for at least three years after the date of entry of the record.

F. A dealer or authorized third party shall allow the director of the department of transportation or the director of the department of revenue full and free access to the records during regular business hours.

G. The electronic record is written notice of the removal of the vehicle from this state for use in the purchaser's state of residence and relieves the dealer or authorized third party of liability in accordance with the requirements of section 42-5009.

H. If a purchaser registers the vehicle in this state within three hundred sixty-five days after the issuance of the special ninety day nonresident registration permit, the purchaser is liable in an amount equal to any tax, penalty and interest that the motor vehicle dealer or authorized third party would have been required to pay under title 42, chapter 5 and under articles IV and VI of the model city tax code as defined in section 42-6051. At the time of issuing the special ninety day nonresident registration permit, a motor vehicle dealer or authorized third party shall inform the purchaser in writing of the purchaser's liability described in this section. Subsequent registration or use of the vehicle in this state does not create a cause of action against a dealer or authorized third party that complies with section 28-2154, subsection A, this section and section 42-5009, subsection H.

I. The department of transportation and the department of revenue shall jointly develop and prescribe forms for the motor vehicle dealer, the authorized third party and the purchaser to complete for the proper administration and enforcement of this section.

J. Compliance with this section and section 28-2154 allows delivery of the vehicle to a nonresident purchaser in this state and retains the applicable deductions pursuant to section 42-5061, subsection A, paragraph 28 and subsection ~~V~~ U.

Sec. 9. Section 41-1520, Arizona Revised Statutes, is amended to read:

41-1520. International operations centers; utility relief; certification; revocation; definitions

A. Utility relief is allowed for the owner or operator of an international operations center that is certified pursuant to this section.

B. To qualify for the utility relief, the owner or operator must submit to the authority an application in a form prescribed by the authority that includes all of the following:

1. The owner's or operator's name, address and telephone number.

2. The address of the site where the facility is or will be located, including, if applicable, information sufficient to identify the specific portion or portions of the facility comprising the international operations center.

3. An estimate of the total investment the owner or operator or an affiliated entity, including investments made by a third-party entity on behalf of and for the benefit of the owner, operator or affiliated entity, will make, over a three-year period beginning on the date the application is received, in new renewable energy facilities in this state that produce energy for self-consumption by the international operations center using renewable energy resources.

4. The expected location of each of the renewable energy facilities that comprise the total investment estimated in paragraph 3 of this subsection and the earliest date that each facility is expected to be operational.

5. A statement that a portion of the power generated by each renewable energy facility, as required by subsection D, paragraph 4 of

this section, is for self-consumption and will be used for international operations center use.

C. Within sixty days after receiving a complete and correct application, the authority shall review the application and either issue a written certification that the international operations center qualifies for the utility relief or provide written reasons for its denial. A failure to approve or deny the application within sixty days after the date of submittal constitutes certification of the international operations center, and the authority shall issue written certification to the owner or operator within fourteen days. The authority shall send a copy of the certification to the department of revenue.

D. The owner or operator of the international operations center must achieve all of the following requirements after taking into account the combined investments made by the owner or operator:

1. A minimum annual investment of $100,000,000 in new capital assets, including costs of land, buildings and international operations center equipment in each of ten consecutive taxable years of the owner or operator. Investments greater than $100,000,000 in any taxable year may be carried forward as a credit toward the investment requirement in future years.

2. On or before the tenth anniversary of certification, a minimum investment of at least $1,250,000,000 in new capital assets, including costs of land, buildings and international operations center equipment.

3. An investment by the owner or operator or an affiliated entity, or a third-party entity on behalf of or for the direct benefit of the owner, operator or affiliated entity, of at least $100,000,000 in one or more new renewable energy facilities in this state that produce energy for self-consumption using renewable energy resources. The minimum investment must be completed within a three-year period beginning on the date the initial application is received or by December 31, 2030, whichever is earlier. Construction of the renewable energy facilities shall begin not later than six months after the receipt of the application.

4. The use of a portion of the energy produced at each renewable energy facility for self-consumption in this state. By the fifth year a renewable energy facility is in operation, at least fifty-one percent of the energy produced must be used for self-consumption in this state. Self-consumption includes the power used by related entities if the related entities are directly or indirectly under the same ownership interests that collectively own more than eighty percent. Power that a renewable energy facility transfers to a utility qualifies as self-consumption if the utility is the same utility that provides power to the owner's or operator's international operations center in this state, regardless of whether the owner or operator or an affiliated entity owns or leases the renewable energy facility or the land on which it is located at the time of transfer.

5. The use of power for self-consumption under paragraph 4 of this subsection is for an international operations center in this state. A lessor of an international operations center facility that uses power for self-consumption under paragraph 4 of this subsection satisfies the requirements of this paragraph if the lessee is an international operations center and the power is transferred as part of the lease to the lessee.

E. Within thirty days after the end of each taxable year following certification, and within thirty days after the tenth anniversary of certification, the owner or operator shall furnish the authority written information demonstrating whether the certified international operations center has or has not satisfied the requirements prescribed in subsection D of this section. Until the requirements prescribed in subsection D of this section are met, the owner or operator shall keep detailed records of all capital investment in the international operations center, including costs of land, buildings and international operations center equipment, and all utility relief directly received by the owner or operator.

F. If the authority determines that the requirements of this section have not been satisfied, the authority may revoke the certification of the international operations center and notify the department of revenue in writing. The owner or operator may appeal the revocation. The authority may give special consideration or allow a temporary exception if there is extraordinary hardship due to factors beyond the owner's or operator's control. If certification is revoked, the department of revenue shall order the owner or operator to forfeit further entitlement to utility relief. If the owner or operator fails to make a minimum capital investment of $100,000,000 in a taxable year, taking into account any excess investment amounts carried forward from previous years, the owner or operator may avoid revocation of its certification by paying to the department of revenue within sixty days after the end of the taxable year the amount of the utility relief provided pursuant to this section in that year.

G. Each year after initial certification, on or before the anniversary date of the application specified in subsection B of this section, the owner, operator or affiliated entity must submit to the authority:

1. Documentation of the owner's, operator's or affiliated entity's progress toward the investment required by subsection D, paragraph 3 of this section. This documentation is not required after the authority receives a report stating that the required investment threshold has been reached.

2. Documentation for each renewable energy facility that demonstrates that the required portion of the power generated by each facility is for self-consumption as required by subsection D, paragraph 4 of this section.

H. The authority and the department of revenue shall prescribe forms and procedures as necessary for the purposes of this section.

I. Proprietary business information contained in the application form described in subsection B of this section and the written notice described in subsection F of this section are confidential and may not be disclosed to the public, except that the information shall be transmitted to the department of revenue. The authority or the department of revenue may disclose the name of an international operations center that has been certified pursuant to this section.

J. Except as provided in subsection F of this section, on certification, the international operations center remains certified unless ownership of the international operations center is sold, conveyed, transferred or otherwise directly or indirectly disposed of to another entity in which the original owner holds less than a controlling interest. For the purposes of this subsection, "controlling interest" means at least eighty percent of the voting shares of a corporation or of the interests in a noncorporate entity.

K. An owner or operator may be composed of a single entity or affiliated entities.

L. If the information required by subsection B, paragraphs 3, 4 and 5 of this section and the documentation required by subsection G of this section were already provided to the department of revenue for the purposes of the credit provided by section 43-1164.05, the owner or operator is not required to provide the information or documentation a second time under this section.

M. For the purposes of this section:

1. "Affiliated entity" means any of the following:

(a) An entity that is included in the same Arizona income tax return as the owner or operator of the international operations center.

(b) Any entity in which the owner or operator of the international operations center is entitled to a distributive share of the entity's income or loss.

(c) Any entity, including a single-member limited liability company, that is disregarded for federal income tax purposes and is directly or indirectly owned wholly or in part by the owner or operator of the international operations center.

2. "Biomass" means organic material that is available on a renewable or recurring basis, including:

(a) Forest-related materials, including mill residues, logging residues, forest thinnings, slash, brush, low-commercial value materials or undesirable species, salt cedar and other phreatophyte or woody vegetation removed from river basins or watersheds and woody material harvested for the purpose of forest fire fuel reduction or forest health and watershed improvement.

(b) Agricultural-related materials, including orchard trees, vineyard, grain or crop residues, including straws and stover, aquatic plants and agricultural processed coproducts and waste products, including fats, oils, greases, whey and lactose.

(c) Animal waste, including manure and slaughterhouse and other processing waste.

(d) Solid woody waste materials, including landscape or right-of-way tree trimmings, rangeland maintenance residues, waste pallets, crates and manufacturing, construction and demolition wood wastes, but excluding pressure-treated, chemically treated or painted wood wastes and wood contaminated with plastic.

(e) Crops and trees planted for the purpose of being used to produce energy.

(f) Landfill gas, wastewater treatment gas and biosolids, including organic waste by-products generated during the wastewater treatment process.

3. "International operations center" means a facility or connected facilities under the same ownership that are subject to the investment thresholds under subsection D of this section and that self-consume renewable energy from a qualified facility pursuant to subsection D of this section.

4. "Renewable energy facility" means a facility in which the owner, operator or affiliated entity, or a third-party entity on behalf of and for the benefit of the taxpayer, owner, operator or affiliated entity, invested at least $30,000,000, that has at least twenty megawatts of generating capacity or a minimum typical annual generation of forty thousand megawatt hours, that is located on land in this state and that produces electricity using a renewable energy resource.

5. "Renewable energy resource" means a resource that generates electricity by using only the following energy sources:

(a) Solar light.

(b) Solar heat.

(c) Wind.

(d) Biomass, including fuel cells supplied directly or indirectly with biomass generated fuels.

(e) Battery storage that is independent from or coupled with other sources.

6. "Utility relief" means the mitigation of the tax burden on the retail purchaser of electricity or natural gas through the application of section 42-5063, subsection C, paragraph 7, section 42-5159, subsection ~~G~~ F, paragraph 2 and section 42-6012, paragraph 2.

Sec. 10. Repeal

Section 41-1525, Arizona Revised Statutes, is repealed.

Sec. 11. Section 42-1001, Arizona Revised Statutes, is amended to read:

42-1001. Definitions

In this title, unless the context otherwise requires:

1. "Board" or "state board" means either the state board of tax appeals or the state board of equalization, as applicable.

2. "Court" means the tax court or superior court, whichever is applicable.

3. "Department" means the department of revenue.

4. "Director" means the director of the department.

5. "Electronically send" or "send electronically" means to send by either email or the use of an electronic portal.

6. "Electronic portal" means a secure location on a website established by the department that requires the receiver to enter a password to access.

7. "Email" means:

(a) An electronic transmission of a message to an email address.

(b) If the message contains confidential information, the electronic transmission of a message to an email address using encryption software that requires the receiver to enter a password before the message can be retrieved and viewed.

8. "Internal revenue code" means the United States internal revenue code of 1986, as amended and in effect as of January 1, ~~2025~~ 2026, including those provisions that became effective during ~~2024~~ 2025 with the specific adoption of their retroactive effective dates but excluding all changes to the code enacted after January 1, ~~2025~~ 2026.

Sec. 12. Section 42-2003, Arizona Revised Statutes, is amended to read:

42-2003. Authorized disclosure of confidential information

A. Confidential information relating to:

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

2. A corporate taxpayer may be disclosed to any principal officer, any person designated by a principal officer or any person designated in a resolution by the corporate board of directors or other similar governing body. If a corporate officer signs a statement under penalty of perjury representing that the officer is a principal officer, the department may rely on the statement until the statement is shown to be false. For the purposes of this paragraph, "principal officer" includes a chief executive

officer, president, secretary, treasurer, vice president of tax, chief financial officer, chief operating officer or chief tax officer or any other corporate officer who has the authority to bind the taxpayer on matters related to state taxes.

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

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

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

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

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

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

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

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

B. Confidential information may be disclosed to:

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

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

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

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

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

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

(b) A state tax official of another state.

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

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

(e) An agency, official or organization of an Indian tribal government with responsibilities comparable to the responsibilities of the agencies, officials or organizations identified in subdivision (a), (b) or (c) of this paragraph.

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

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

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

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

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

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

(a) Regarding income tax or withholding tax.

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

9. The United States treasury inspector general for tax administration for the purpose of reporting a violation of internal

revenue code section 7213A (26 United States Code section 7213A), unauthorized inspection of returns or return information.

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

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

12. The Arizona commerce authority for its use in:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1. May be used only for internal purposes, including audits and communication with taxpayers for the purposes of the notice required by section 9-499.15, subsection C. If there is a legitimate business need relating to enforcing laws, regulations and ordinances pursuant to section 9-500.39 or 11-269.17, a county, city or town tax official may redisclose transaction privilege tax information relating to a vacation rental or short-term rental property owner or online lodging operator from the new license report and license update report, subject to the following:

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

(i) The transaction privilege tax license number.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~U.~~ T. The department and attorney general may share the information specified in subsection ~~S~~ R 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~~ R 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~~ R 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.~~ U. 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.~~ V. 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.~~ W. Notwithstanding any other provision of this section, the department may not disclose information provided by an online lodging marketplace, as defined in section 42-5076, without the written consent of the online lodging marketplace, and the information may be disclosed only pursuant to subsection A, paragraphs 1 through 6, 8 and 10, subsection B, paragraphs 1, 2, 7 and 8 and subsections C, D and G of this section. Such information:

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

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

Sec. 13. Section 42-5009, Arizona Revised Statutes, is amended to read:

42-5009. Certificates establishing deductions; liability for making false certificate; tax exclusion; definitions

A. A person who conducts any business classified under article 2 of this chapter may establish entitlement to the allowable deductions from the tax base of that business by both:

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

2. Obtaining a certificate executed by the purchaser indicating the name and address of the purchaser, the precise nature of the business of

the purchaser, the purpose for which the purchase was made, the necessary facts to establish the appropriate deduction and the tax license number of the purchaser to the extent the deduction depends on the purchaser conducting business classified under article 2 of this chapter and a certification that the person executing the certificate is authorized to do so on behalf of the purchaser. The certificate may be disregarded if the seller has reason to believe that the information contained in the certificate is not accurate or complete.

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

C. The department may prescribe a form for the certificate described in subsection A of this section. Under such rules as it may prescribe, the department may also describe transactions with respect to which a person is not entitled to rely solely on the information contained in the certificate provided for in subsection A of this section but must instead obtain such additional information as required by the rules in order to be entitled to the deduction.

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

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

F. The department may prescribe a form for a certificate used to establish entitlement to the deductions described in section 42-5061, subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3. Under rules the department may prescribe, the department may also require additional information for the seller to be entitled to the deduction. If a seller is entitled to the deductions described in section 42-5061, subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3, the department may require the purchaser who executed the certificate to establish the accuracy and completeness of the information contained in the certificate that would entitle the seller to the deduction. If the purchaser cannot establish the accuracy and completeness of the information, the purchaser is liable in an amount equal to any tax, penalty and interest that the seller would have been required to pay under this article. Payment of the amount under this subsection exempts the purchaser from liability for any tax imposed under article 4 of this chapter. The amount shall be treated as tax revenues collected from the seller in order to designate the distribution base for purposes of section 42-5029.

G. If a seller claims a deduction under section 42-5061, subsection A, paragraph 25 and establishes entitlement to the deduction with an exemption letter that the purchaser received from the department and the exemption letter was based on a contingent event, the department may require the purchaser that received the exemption letter to establish the satisfaction of the contingent event within a reasonable time. If the purchaser cannot establish the satisfaction of the event, the purchaser is liable in an amount equal to any tax, penalty and interest that the seller would have been required to pay under this article if the seller had not been furnished the exemption letter. Payment of the amount under this subsection exempts the purchaser from liability for any tax imposed under article 4 of this chapter. The amount shall be treated as tax revenues collected from the seller in order to designate the distribution base for purposes of section 42-5029. For the purposes of this subsection, "reasonable time" means a time limitation that the department determines and that does not exceed the time limitations pursuant to section 42-1104.

H. The department shall prescribe forms for certificates used to establish the satisfaction of the criteria necessary to qualify the sale of a motor vehicle for the deductions described in section 42-5061, subsection A, paragraphs 14, 28 and 44 and subsection ~~V~~ U. Except as provided in subsection J of this section, to establish entitlement to these deductions, a motor vehicle dealer shall retain:

1. A valid certificate as prescribed by this subsection completed by the purchaser and obtained before the issuance of the nonresident registration permit authorized by section 28-2154.

2. For the purposes of the deductions provided by section 42-5061, subsection A, paragraph 14, subdivision (b) and section 42-5061,

subsection ~~V~~ U, a copy of the nonresident registration permit authorized by section 28-2154.

3. A legible copy of a current valid driver license issued to the purchaser by another state or foreign country that indicates an address outside of this state. For the sale of a motor vehicle to a nonresident entity, the entity's representative must have a current valid driver license issued by the same jurisdiction as that in which the entity is located.

4. For the purposes of the deduction provided by section 42-5061, subsection A, paragraph 14, subdivision (a), a certificate documenting the delivery of the motor vehicle to an out-of-state location.

I. Notwithstanding subsection A, paragraph 2 of this section, if a motor vehicle dealer has established entitlement to a deduction by complying with subsection H of this section, the department may require the purchaser who executed the certificate to establish the accuracy and completeness of the information contained in the certificate that entitled the motor vehicle dealer to the deduction. If the purchaser cannot establish the accuracy and completeness of the information, the purchaser is liable in an amount equal to any tax, penalty and interest that the motor vehicle dealer would have been required to pay under this article and under articles IV and V of the model city tax code as defined in section 42-6051. Payment of the amount under this subsection exempts the purchaser from liability for any tax imposed under article 4 of this chapter and any tax imposed under article VI of the model city tax code as defined in section 42-6051. The amount shall be treated as tax revenues collected from the motor vehicle dealer in order to designate the distribution base for purposes of section 42-5029.

J. To establish entitlement to the deduction described in section 42-5061, subsection A, paragraph 44, a public consignment auction dealer as defined in section 28-4301 shall retain a copy of the certificate prescribed by subsection H of this section for its records.

K. Notwithstanding any other law, compliance with subsection H of this section by a motor vehicle dealer entitles the motor vehicle dealer to the exemption provided in section 42-6004, subsection A, paragraph 4.

L. The department shall prescribe a form for a certificate to be used by a person that is not subject to tax under section 42-5075 when the person is engaged by a contractor that is subject to tax under section 42-5075 for a project that is taxable under section 42-5075. The certificate permits the person purchasing tangible personal property to be incorporated or fabricated by the person into any real property, structure, project, development or improvement to provide documentation to a retailer that the sale of tangible personal property qualifies for the deduction under section 42-5061, subsection A, paragraph 27, subdivision (b). A prime contractor shall obtain the certificate from the department and shall provide a copy to any such person working on the project. The prime contractor shall obtain a new certificate for each project to which this subsection applies. For the purposes of this subsection, the following apply:

1. The person that is not subject to tax under section 42-5075 may use the certificate issued pursuant to this subsection only with respect to tangible personal property that will be incorporated into a project for which the gross receipts are subject to tax under section 42-5075.

2. The department shall issue the certificate to the prime contractor on receiving sufficient documentation to establish that the prime contractor meets the requirements of this subsection.

3. If any person uses the certificate provided under this subsection to purchase tangible personal property to be used in a project that is not subject to tax under section 42-5075, the person is liable in an amount equal to any tax, penalty and interest that the seller would have been required to pay under this article if the seller had not complied with subsection A of this section. Payment of the amount under this section exempts the person from liability for any tax imposed under article 4 of this chapter. The amount shall be sourced under section 42-5040, subsection A, paragraph 2.

M. Notwithstanding any other law, compliance with subsection L of this section by a person that is not subject to tax under section 42-5075 entitles the person to the exemption allowed by section 465, subsection (k) of the model city tax code when purchasing tangible personal property to be incorporated or fabricated by the person into any real property, structure, project, development or improvement.

N. The requirements of subsections A and B of this section do not apply to owners, proprietors or tenants of agricultural lands or farms who sell livestock or poultry feed that is grown or raised on their lands to any of the following:

1. Persons who feed their own livestock or poultry.

2. Persons who are engaged in the business of producing livestock or poultry commercially.

3. Persons who are engaged in the business of feeding livestock or poultry commercially or who board livestock noncommercially.

O. A vendor who has reason to believe that a certificate prescribed by this section is not accurate or complete will not be relieved of the burden of proving entitlement to the exemption. A vendor that accepts a certificate in good faith will be relieved of the burden of proof and the purchaser may be required to establish the accuracy of the claimed exemption. If the purchaser cannot establish the accuracy and completeness of the information provided in the certificate, the purchaser is liable for an amount equal to the transaction privilege tax, penalty and interest that the vendor would have been required to pay if the vendor had not accepted the certificate.

P. Notwithstanding any other law, an online lodging operator, as defined in section 42-5076, shall be entitled to an exclusion from any applicable taxes for any online lodging transaction, as defined in section 42-5076, facilitated by an online lodging marketplace, as defined in section 42-5076, for which the online lodging operator has obtained from the online lodging marketplace written notice that the online lodging marketplace is registered with the department to collect applicable taxes for all online lodging transactions facilitated by the online lodging marketplace, and transaction history documenting tax collected by the online lodging marketplace, pursuant to section 42-5005, subsection L.

Q. The department shall prescribe the form of a certificate to be used by a person purchasing an aircraft to document eligibility for a deduction pursuant to section 42-5061, subsection B, paragraph 8, subdivision (a), item (v) or an exemption pursuant to section 42-5159, subsection B, paragraph 8, subdivision (a), item (v), relating to aircraft. The person must provide this certificate and documentation confirming that the operational control of the aircraft has been transferred or will be transferred immediately after the purchase to one or more persons described in section 42-5061, subsection B, paragraph 8, subdivision (a), item (i), (ii), (iii) or (iv) or section 42-5159, subsection B, paragraph 8, subdivision (a), item (i), (ii), (iii) or (iv). Operational control of the aircraft must be transferred for at least fifty percent of the aircraft's flight hours. If such operational control is not transferred for at least fifty percent of the aircraft's flight hours during the recapture period, the owner of the aircraft is liable for an amount equal to any tax that the seller or purchaser would have been required to pay under this chapter at the time of the sale, plus penalty and interest. The recapture period begins on the date that operational control of the aircraft is first transferred and ends on the later of the date the aircraft is fully depreciated for federal income tax purposes or five years after operational control was first transferred. For the purposes of this subsection, operational control of the aircraft must be within the meaning of federal aviation administration operations specification A008, or its successor, except that:

1. If it is determined that operational control has been transferred for less than fifty percent but more than forty percent of the aircraft's flight hours, the owner of the aircraft is liable for an amount equal to any tax that the seller or purchaser would have been required to pay under this chapter at the time of the sale, plus interest.

2. If the aircraft is sold during the recapture period, the seller is not liable for the amount determined pursuant to this subsection unless the operational control of the aircraft had not been transferred for at least fifty percent of the aircraft's flight hours at the time of the sale.

R. Notwithstanding any other law, a shared vehicle owner is entitled to an exclusion from any applicable taxes for a shared vehicle transaction that is facilitated by a peer-to-peer car sharing program and for which the peer-to-peer car sharing program has collected and remitted applicable taxes.

S. A qualifying community health center, qualifying health care organization or qualifying hospital or any other entity that is recognized as nonprofit under section 501(c) of the United States internal revenue code and that is required to obtain an exemption letter from the department shall:

1. Apply to the department for the exemption letter and fully answer any eligibility questions required by the department for the purposes of the exemption letter. If the department approves the exemption letter application, the exemption letter is valid until the entity is no longer qualified for the exemption letter.

2. Notify the department in writing if the entity no longer qualifies for the exemption letter. Regardless of whether the entity notifies the department as required by this paragraph, if the entity no longer qualifies for the exemption letter, the entity is liable in an amount equal to any tax, penalty and interest that the seller would have been required to pay under this article if the seller had not been furnished the exemption letter. Payment of the amount under this paragraph exempts the entity from liability for any tax imposed under article 4 of this chapter. The amount shall be treated as tax revenues collected from the seller in order to designate the distribution base for the purposes of section 42-5029.

T. For the purposes of this section, "peer-to-peer car sharing program", "shared vehicle owner" and "shared vehicle transaction" have the same meanings prescribed in section 28-9601.

Sec. 14. Section 42-5029, Arizona Revised Statutes, is amended to read:

42-5029. Remission and distribution of monies; withholding; definition

A. The department shall deposit, pursuant to sections 35-146 and 35-147, all revenues collected under this article and articles 4, 5 and 8 of this chapter pursuant to section 42-1116, separately accounting for:

1. Payments of estimated tax under section 42-5014, subsection D.

2. Revenues collected pursuant to section 42-5070.

3. Revenues collected under this article and article 5 of this chapter from and after June 30, 2000 from sources located on Indian reservations in this state.

4. Revenues collected pursuant to section 42-5010, subsection G and section 42-5155, subsection D.

5. Revenues collected pursuant to section 42-5010.01 and section 42-5155, subsection E.

6. Revenues collected pursuant to section 42-5061 from a remote seller.

B. The department shall credit payments of estimated tax to an estimated tax clearing account and each month shall transfer all monies in the estimated tax clearing account to a fund designated as the transaction privilege and severance tax clearing account. The department shall credit all other payments to the transaction privilege and severance tax clearing account, separately accounting for the monies designated as distribution base under sections 42-5010, 42-5164 and 42-5205. Each month the department shall report to the state treasurer the amount of monies collected pursuant to this article and articles 4, 5 and 8 of this chapter.

C. On notification by the department, the state treasurer shall distribute the monies deposited in the transaction privilege and severance tax clearing account in the manner prescribed by this section and by sections 42-5164 and 42-5205, after deducting warrants drawn against the account pursuant to sections 42-1118 and 42-1254.

D. Of the monies designated as distribution base, the department shall:

1. Pay twenty-five percent to the various incorporated municipalities in this state in proportion to their population to be used by the municipalities for any municipal purpose, except a municipality shall use monies paid from revenues separately accounted for pursuant to subsection A, paragraph 6 of this section and paid pursuant to this paragraph for public safety before any other municipal purpose.

2. Pay 38.08 percent to the counties in this state by averaging the following proportions:

(a) The proportion that the population of each county bears to the total state population.

(b) The proportion that the distribution base monies collected during the calendar month in each county under this article, section 42-5164, subsection B and section 42-5205, subsection B bear to the total distribution base monies collected under this article, section 42-5164, subsection B and section 42-5205, subsection B throughout ~~the~~ THIS state for the calendar month.

3. Pay an additional 2.43 percent to the counties in this state as follows:

(a) Average the following proportions:

(i) The proportion that the assessed valuation used to determine secondary property taxes of each county, after deducting that part of the assessed valuation that is exempt from taxation at the beginning of the month for which the amount is to be paid, bears to the total assessed valuations used to determine secondary property taxes of all the counties after deducting that portion of the assessed valuations that is exempt from taxation at the beginning of the month for which the amount is to be paid. Property of a city or town that is not within or contiguous to the municipal corporate boundaries and from which water is or may be withdrawn or diverted and transported for use on other property is considered to be taxable property in the county for purposes of determining assessed valuation in the county under this item.

(ii) The proportion that the distribution base monies collected during the calendar month in each county under this article, section 42-5164, subsection B and section 42-5205, subsection B bear to the total distribution base monies collected under this article, section 42-5164, subsection B and section 42-5205, subsection B throughout this state for the calendar month.

(b) If the proportion computed under subdivision (a) of this paragraph for any county is greater than the proportion computed under paragraph 2 of this subsection, the department shall compute the difference between the amount distributed to that county under paragraph 2 of this subsection and the amount that would have been distributed under paragraph 2 of this subsection using the proportion computed under subdivision (a) of this paragraph and shall pay that difference to the county from the amount available for distribution under this paragraph. Any monies remaining after all payments under this subdivision shall be distributed among the counties according to the proportions computed under paragraph 2 of this subsection.

4. After any distributions required by sections 42-5030, 42-5030.01, ~~42-5031,~~ 42-5032, 42-5032.01, 42-5032.02 and 42-5032.03 and after making any transfer to the water quality assurance revolving fund as required by section 49-282, subsection B, credit the remainder of the monies designated as distribution base to the state general fund. From this amount the legislature shall annually appropriate to:

(a) The department of revenue, sufficient monies to administer and enforce this article and articles 5 and 8 of this chapter.

(b) The department of economic security, monies to be used for the purposes stated in title 46, chapter 1.

(c) The firearms safety and ranges fund established by section 17-273, $50,000 derived from the taxes collected from the retail classification pursuant to section 42-5061 for the current fiscal year.

E. If approved by the qualified electors voting at a statewide general election, all monies collected pursuant to section 42-5010, subsection G and section 42-5155, subsection D shall be distributed each fiscal year pursuant to this subsection. The monies distributed pursuant to this subsection are in addition to any other appropriation, transfer or other allocation of public or private monies from any other source and shall not supplant, replace or cause a reduction in other school district, charter school, university or community college funding sources. The monies shall be distributed as follows:

1. If there are outstanding state school facilities revenue bonds pursuant to title 15, chapter 16, article 7, each month one-twelfth of the amount that is necessary to pay the fiscal year's debt service on outstanding state school improvement revenue bonds for the current fiscal year shall be transferred each month to the school improvement revenue bond debt service fund established by section 15-2084. The total amount of bonds for which these monies may be allocated for the payment of debt service shall not exceed a principal amount of eight hundred million dollars exclusive of refunding bonds and other refinancing obligations.

2. After any transfer of monies pursuant to paragraph 1 of this subsection, twelve per cent of the remaining monies collected during the preceding month shall be transferred to the technology and research initiative fund established by section 15-1648 to be distributed among the universities for the purpose of investment in technology and research-based initiatives.

3. After the transfer of monies pursuant to paragraph 1 of this subsection, three per cent of the remaining monies collected during the preceding month shall be transferred to the workforce development account established in each community college district pursuant to section 15-1472 for the purpose of investment in workforce development programs.

4. After transferring monies pursuant to paragraphs 1, 2 and 3 of this subsection, one-twelfth of the amount a community college that is owned, operated or chartered by a qualifying Indian tribe on its own Indian reservation would receive pursuant to section 15-1472, subsection D, paragraph 2 if it were a community college district shall be distributed each month to the treasurer or other designated depository of a qualifying Indian tribe. Monies distributed pursuant to this paragraph are for the exclusive purpose of providing support to one or more community colleges owned, operated or chartered by a qualifying Indian tribe and shall be used in a manner consistent with section 15-1472, subsection B. For the purposes of this paragraph, "qualifying Indian tribe" has the same meaning as defined in section 42-5031.01, subsection D.

5. After transferring monies pursuant to paragraphs 1, 2 and 3 of this subsection, one-twelfth of the following amounts shall be transferred each month to the department of education for the increased cost of basic state aid under section 15-971 due to added school days and associated teacher salary increases enacted in 2000:

(a) In fiscal year 2001-2002, $15,305,900.

(b) In fiscal year 2002-2003, $31,530,100.

(c) In fiscal year 2003-2004, $48,727,700.

(d) In fiscal year 2004-2005, $66,957,200.

(e) In fiscal year 2005-2006 and each fiscal year thereafter, $86,280,500.

6. After transferring monies pursuant to paragraphs 1, 2 and 3 of this subsection, seven million eight hundred thousand dollars is appropriated each fiscal year, to be paid in monthly installments, to the department of education to be used for school safety as provided in section 15-154 and two hundred thousand dollars is appropriated each fiscal year, to be paid in monthly installments to the department of education to be used for the character education matching grant program as provided in section 15-154.01.

7. After transferring monies pursuant to paragraphs 1, 2 and 3 of this subsection, no more than seven million dollars may be appropriated by the legislature each fiscal year to the department of education to be used for accountability purposes as described in section 15-241 and title 15, chapter 9, article 8.

8. After transferring monies pursuant to paragraphs 1, 2 and 3 of this subsection, one million five hundred thousand dollars is appropriated each fiscal year, to be paid in monthly installments, to the failing schools tutoring fund established by section 15-241.

9. After transferring monies pursuant to paragraphs 1, 2 and 3 of this subsection, twenty-five million dollars shall be transferred each fiscal year to the state general fund to reimburse the general fund for the cost of the income tax credit allowed by section 43-1072.01.

10. After the payment of monies pursuant to paragraphs 1 through 9 of this subsection, the remaining monies collected during the preceding month shall be transferred to the classroom site fund established by section 15-977. The monies shall be allocated as follows in the manner prescribed by section 15-977:

(a) Forty per cent shall be allocated for teacher compensation based on performance.

(b) Twenty per cent shall be allocated for increases in teacher base compensation and employee related expenses.

(c) Forty per cent shall be allocated for maintenance and operation purposes.

F. The department shall credit the remainder of the monies in the transaction privilege and severance tax clearing account to the state general fund, subject to any distribution required by section 42-5030.01.

G. Notwithstanding subsection D of this section, if a court of competent jurisdiction finally determines that tax monies distributed under this section were illegally collected under this article or articles 5 and 8 of this chapter and orders the monies to be refunded to the taxpayer, the department shall compute the amount of such monies that was distributed to each city, town and county under this section. Each city's, town's and county's proportionate share of the costs shall be based on the amount of the original tax payment each municipality and county received. Each month the state treasurer shall reduce the amount otherwise distributable to the city, town and county under this section by

1/36 of the total amount to be recovered from the city, town or county until the total amount has been recovered, but the monthly reduction for any city, town or county shall not exceed ten percent of the full monthly distribution to that entity. The reduction shall begin for the first calendar month after the final disposition of the case and shall continue until the total amount, including interest and costs, has been recovered.

H. On receiving a certificate of default from the greater Arizona development authority pursuant to section 41-2257 or 41-2258 and to the extent not otherwise expressly prohibited by law, the state treasurer shall withhold from the next succeeding distribution of monies pursuant to this section due to the defaulting political subdivision the amount specified in the certificate of default and immediately deposit the amount withheld in the greater Arizona development authority revolving fund. The state treasurer shall continue to withhold and deposit the monies until the greater Arizona development authority certifies to the state treasurer that the default has been cured. ~~In no event may~~ The state treasurer MAY NOT withhold any amount that the defaulting political subdivision certifies to the state treasurer and the authority as being necessary to make any required deposits then due for the payment of principal and interest on bonds of the political subdivision that were issued before the date of the loan repayment agreement or bonds and that have been secured by a pledge of distributions made pursuant to this section.

I. Except as provided by sections 42-5033 and 42-5033.01, the population of a county, city or town as determined by the most recent United States decennial census plus any revisions to the decennial census certified by the United States bureau of the census shall be used as the basis for apportioning monies pursuant to subsection D of this section.

J. Except as otherwise provided by this subsection, on notice from the department of revenue pursuant to section 42-6010, subsection B, the state treasurer shall withhold from the distribution of monies pursuant to this section to the affected city or town the amount of the penalty for business location municipal tax incentives provided by the city or town to a business entity that locates a retail business facility in the city or town. The state treasurer shall continue to withhold monies pursuant to this subsection until the entire amount of the penalty has been withheld. The state treasurer shall credit any monies withheld pursuant to this subsection to the state general fund as provided by subsection D, paragraph 4 of this section. The state treasurer shall not withhold any amount that the city or town certifies to the department of revenue and the state treasurer as being necessary to make any required deposits or payments for debt service on bonds or other long-term obligations of the city or town that were issued or incurred before the location incentives provided by the city or town.

K. On notice from the auditor general pursuant to section 9-626, subsection D, the state treasurer shall withhold from the distribution of monies pursuant to this section to the affected city the amount computed pursuant to section 9-626, subsection D. The state treasurer shall continue to withhold monies pursuant to this subsection until the entire amount specified in the notice has been withheld. The state treasurer shall credit any monies withheld pursuant to this subsection to the state general fund as provided by subsection D, paragraph 4 of this section.

L. Except as otherwise provided by this subsection, on notice from the attorney general pursuant to section 41-194.01, subsection B, paragraph 1 that an ordinance, regulation, order or other official action adopted or taken by the governing body of a county, city or town violates state law or the Constitution of Arizona, the state treasurer shall withhold the distribution of monies pursuant to this section to the affected county, city or town and shall continue to withhold monies pursuant to this subsection until the attorney general certifies to the state treasurer that the violation has been resolved. The state treasurer shall redistribute the monies withheld pursuant to this subsection among all other counties, cities and towns in proportion to their population as provided by subsection D of this section. The state treasurer shall not withhold any amount that the county, city or town certifies to the attorney general and the state treasurer as being necessary to make any required deposits or payments for debt service on bonds or other long-term obligations of the county, city or town that were issued or incurred before committing the violation.

M. For the purposes of this section, "community college district" means a community college district that is established pursuant to sections 15-1402 and 15-1403 and that is a political subdivision of this state and, unless otherwise specified, includes a community college tuition financing district established pursuant to section 15-1409.

Sec. 15. Repeal

Section 42-5031, Arizona Revised Statutes, is repealed.

Sec. 16. Section 42-5061, Arizona Revised Statutes, is amended to read:

42-5061. Retail classification; definitions

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

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

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

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

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

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

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

7. The sale of stocks and bonds.

8. Drugs and medical oxygen, including delivery hose, mask or tent, regulator and tank, if prescribed by a member of the medical, dental or veterinarian profession who is licensed by law to administer such substances.

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

10. Insulin, insulin syringes and glucose test strips.

11. Prescription eyeglasses or contact lenses.

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

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

14. Sales of motor vehicles to nonresidents of this state for use outside this state if either of the following applies:

(a) The motor vehicle dealer ships or delivers the motor vehicle to a destination out of this state.

(b) The vehicle, trailer or semitrailer has a gross vehicle weight rating of more than ten thousand pounds, is used or maintained to transport property in the furtherance of interstate commerce and otherwise meets the definition of commercial motor vehicle as defined in section 28-5201.

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

16. Items purchased with United States department of agriculture coupons issued under the supplemental nutrition assistance program pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703; 7 United States Code sections 2011 through 2036b) by the United States

department of agriculture food and nutrition service or food instruments issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code section 1786).

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

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

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

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

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

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

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

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

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

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

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

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

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

25. Tangible personal property sold to:

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

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

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

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

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

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

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

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

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

27. Tangible personal property sold to:

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

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

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

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

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

28. The sale of a motor vehicle to a nonresident of this state if the purchaser's state of residence does not allow a corresponding use tax exemption to the tax imposed by article 1 of this chapter and if the nonresident has secured a special ninety day nonresident registration permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01.

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

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

this state before January 1, 2018 that were exempt from taxation under section 42-5073.

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

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

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

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

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

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

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

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

37. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity sold to a qualified environmental technology manufacturer, producer or processor as defined in section 41-1514.02 and directly used or consumed in generating or providing on-site power or energy solely for environmental technology manufacturing, producing or processing or environmental protection. This paragraph applies for twenty full consecutive calendar or fiscal years from the date the first paper manufacturing machine is placed in service. In the case of an environmental technology manufacturer, producer or processor that does not

manufacture paper, the time period begins with the date the first manufacturing, processing or production equipment is placed in service.

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

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

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

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

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

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

42. Sales of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Machinery, equipment or transmission lines used directly in producing or transmitting electrical power, but not including distribution. Transformers and control equipment used at transmission

substation sites constitute equipment used in producing or transmitting electrical power.

5. Machinery and equipment used directly for energy storage for later electrical use. For the purposes of this paragraph:

(a) "Electric utility scale" means a person that is engaged in a business activity described in section 42-5063, subsection A or such person's equipment or wholesale electricity suppliers.

(b) "Energy storage" means commercially available technology for electric utility scale that is capable of absorbing energy, storing energy for a period of time and thereafter dispatching the energy and that uses mechanical, chemical or thermal processes to store energy.

(c) "Machinery and equipment used directly" means all machinery and equipment that are used for electric energy storage from the point of receipt of such energy in order to facilitate storage of the electric energy to the point where the electric energy is released.

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

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

8. Aircraft, navigational and communication instruments and other accessories and related equipment sold to:

(a) A person:

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

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

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

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

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

(b) Any foreign government.

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

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

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

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

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

13. Groundwater measuring devices required under section 45-604.

14. Machinery and equipment consisting of agricultural aircraft, tractors, off-highway vehicles, tractor-drawn implements, self-powered implements, machinery and equipment necessary for extracting milk, and machinery and equipment necessary for cooling milk and livestock, and drip irrigation lines not already exempt under paragraph 7 of this subsection and that are used for commercial production of agricultural, horticultural, viticultural and floricultural crops and products in this state. For the purposes of this paragraph:

(a) "Off-highway vehicles" means off-highway vehicles as defined in section 28-1171 that are modified at the time of sale to function as a tractor or to tow tractor-drawn implements and that are not equipped with a modified exhaust system to increase horsepower or speed or an engine that is more than one thousand cubic centimeters or that have a maximum speed of fifty miles per hour or less.

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

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

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

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

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

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

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

17. Clean rooms that are used for manufacturing, processing, fabrication or research and development, as defined in paragraph 15 of this subsection, of semiconductor products. For the purposes of this paragraph, "clean room" means all property that comprises or creates an environment where humidity, temperature, particulate matter and

contamination are precisely controlled within specified parameters, without regard to whether the property is actually contained within that environment or whether any of the property is affixed to or incorporated into real property. Clean room:

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

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

18. Machinery and equipment used directly in feeding poultry, environmentally controlling housing for poultry, moving eggs within a production and packaging facility or sorting or cooling eggs. This exemption does not apply to vehicles used for transporting eggs.

19. Machinery or equipment, including related structural components and containment structures, that is employed in connection with manufacturing, processing, fabricating, job printing, refining, mining, natural gas pipelines, metallurgical operations, telecommunications, producing or transmitting electricity or research and development and that is used directly to meet or exceed rules or regulations adopted by the federal energy regulatory commission, the United States environmental protection agency, the United States nuclear regulatory commission, the Arizona department of environmental quality or a political subdivision of this state to prevent, monitor, control or reduce land, water or air pollution. For the purposes of this paragraph, "containment structure" means a structure that prevents, monitors, controls or reduces noxious or harmful discharge into the environment.

20. Machinery and equipment that are sold to a person engaged in commercially producing livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products in this state, including a person representing or working on behalf of such a person in a manner described in section 42-5075, subsection P, if the machinery and equipment are used directly and primarily to prevent, monitor, control or reduce air, water or land pollution.

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

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

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

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

22. Qualifying equipment that is purchased from and after June 30, 2004 through December 31, 2028 by a qualified business under section 41-1516 for harvesting or processing qualifying forest products removed from qualifying projects as defined in section 41-1516. To qualify for this deduction, the qualified business at the time of purchase must present its certification approved by the department.

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

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

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

2. Janitorial equipment and hand tools.

3. Office equipment, furniture and supplies.

4. Tangible personal property used in selling or distributing activities, other than the telecommunications transmissions described in subsection B, paragraph 16 of this section.

5. Motor vehicles required to be licensed by this state, except buses or other urban mass transit vehicles specifically exempted pursuant to subsection B, paragraph 12 of this section, without regard to the use of such motor vehicles.

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

7. Motors and pumps used in drip irrigation systems.

8. Machinery and equipment or other tangible personal property used by a contractor in performing a contract.

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

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

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

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

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

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

2. Businesses classified under the:

(a) Transporting classification.

(b) Utilities classification.

(c) Telecommunications classification.

(d) Pipeline classification.

(e) Private car line classification.

(f) Publication classification.

(g) Job printing classification.

(h) Prime contracting classification.

(i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. The title or possession of the coal is transferred back to the owner or operator of the power plant after completion of the coal refining process. For the purposes of this paragraph, "coal refining process" means the application of a coal additive system that aids in the reduction of power plant emissions during the combustion of coal and the treatment of flue gas.

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

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

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

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

~~U.~~ T. For the purposes of section 42-5032.03 and subject to section 48-4238, beginning October 1, 2025 and each month thereafter through December 31, 2055, the department shall separately account for revenues collected under the retail classification from each business selling tangible personal property at retail on the premises of a major league baseball facility or an adjacent building that is owned by a county stadium district pursuant to title 48, chapter 26 and operated by the county stadium district or the professional baseball franchise organization that occupies the major league baseball facility or adjacent building. For the purposes of this subsection, "adjacent building" and "major league baseball facility" have the same meanings prescribed in section 48-4201.

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

~~W.~~ V. For the purposes of this section:

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

2. "Aircraft" includes:

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

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

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

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

~~X.~~ W. For the purposes of subsection I of this section:

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

2. "Manufacturer" means a person who is principally engaged in fabricating, producing or manufacturing products, wares or articles for use from raw or prepared materials, imparting to those materials new forms, qualities, properties and combinations.

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

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

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

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

Sec. 17. Section 42-5071, Arizona Revised Statutes, is amended to read:

42-5071. Personal property rental classification; definitions

A. The personal property rental classification is comprised of the business of leasing or renting tangible personal property for a consideration and includes peer-to-peer car sharing. The tax does not apply to:

1. Leasing or renting films, tapes or slides used by theaters or movies, which are engaged in business under the amusement classification, or used by television stations or radio stations.

2. Activities engaged in by the Arizona exposition and state fair board or county fair commissions in connection with events sponsored by such entities.

3. Leasing or renting tangible personal property by a parent business entity to a subsidiary business entity or by a subsidiary business entity to another subsidiary of the same parent business entity if taxes were paid under this chapter on the gross proceeds or gross income accruing from the initial sale of the tangible personal property. For the purposes of this paragraph, "subsidiary" means a business entity of which at least eighty percent of the voting shares are owned by the parent business entity.

4. Operating coin-operated washing, drying and dry cleaning machines or coin-operated car washing machines at establishments for the use of such machines.

5. Leasing or renting tangible personal property for incorporation into or comprising any part of a qualified environmental technology facility as described in section 41-1514.02. This paragraph shall apply for ten full consecutive calendar or fiscal years following the initial lease or rental by each qualified environmental technology manufacturer, producer or processor.

6. Leasing or renting aircraft, flight simulators or similar training equipment to students or staff by nonprofit, accredited educational institutions that offer associate or baccalaureate degrees in aviation or aerospace related fields.

7. Leasing or renting photographs, transparencies or other creative works used by this state on internet websites, in magazines or in other publications that encourage tourism.

8. Leasing or renting certified ignition interlock devices installed pursuant to the requirements prescribed by section 28-1461. For the purposes of this paragraph, "certified ignition interlock device" has the same meaning prescribed in section 28-1301.

9. The leasing or renting of space to make attachments to utility poles, as follows:

(a) By a person that is engaged in business under section 42-5063 or 42-5064 or that is a cable operator.

(b) To a person that is engaged in business under section 42-5063 or 42-5064 or that is a cable operator.

10. Leasing or renting billboards that are designed, intended or used to advertise or inform and that are visible from any street, road or other highway.

B. The tax base for the personal property rental classification is the gross proceeds of sales or gross income derived from the business, but the gross proceeds of sales or gross income derived from the following shall be deducted from the tax base:

1. Reimbursements by the lessee to the lessor of a motor vehicle for payments by the lessor of the applicable fees and taxes imposed by sections 28-2003, 28-2352, 28-2402, 28-2481 and 28-5801, title 28, chapter 15, article 2 and article IX, section 11, Constitution of Arizona, to the extent such amounts are separately identified as such fees and taxes and are billed to the lessee.

2. Leases or rentals of tangible personal property that, if it had been purchased instead of leased or rented by the lessee, would have been exempt under:

(a) Section 42-5061, subsection A, paragraph 8, 9, 12, 13, 25, 29, 49 or 53.

(b) Section 42-5061, subsection B.

(c) Section 42-5061, subsection I, paragraph 1.

~~(d) Section 42-5061, subsection M.~~

3. Motor vehicle fuel and use fuel that are subject to a tax imposed under title 28, chapter 16, article 1, sales of use fuel to a holder of a valid single trip use fuel tax permit issued under section 28-5739 and sales of aviation fuel that are subject to the tax imposed under section 28-8344.

4. Leasing or renting a motor vehicle subject to and on which the fee has been paid under title 28, chapter 16, article 4.

5. Amounts received by a motor vehicle dealer for the first month of a lease payment if the lease and the lease payment for the first month of the lease are transferred to a third-party leasing company.

C. Sales of tangible personal property to be leased or rented to a person engaged in a business classified under the personal property rental classification are deemed to be resale sales.

D. In computing the tax base, the gross proceeds of sales or gross income from the lease or rental of a motor vehicle does not include any amount attributable to the car rental surcharge under section 5-839, 28-5810 or 48-4234.

E. Until December 31, 1988, leasing or renting animals for recreational purposes is exempt from the tax imposed by this section. Beginning January 1, 1989, the gross proceeds or gross income from leasing or renting animals for recreational purposes is subject to taxation under this section. Tax liabilities, penalties and interest paid for taxable periods before January 1, 1989 shall not be refunded unless the taxpayer requesting the refund provides proof satisfactory to the department that the monies paid as taxes will be returned to the customer.

F. The tax base of the personal property rental classification does not include the gross proceeds or gross income received by a shared vehicle owner from a peer-to-peer car sharing program pursuant to section 42-5009, subsection R.

G. For the purposes of this section:

1. "Cable operator" has the same meaning prescribed in section 9-505 and includes a video service provider.

2. "Peer-to-peer car sharing" has the same meaning prescribed in section 28-9601.

3. "Peer-to-peer car sharing program" has the same meaning prescribed in section 28-9601.

4. "Shared vehicle owner" has the same meaning prescribed in section 28-9601.

5. "Utility pole" means any wooden, metal or other pole used for utility purposes and the pole's appurtenances that are attached or authorized for attachment by the person controlling the pole.

Sec. 18. Section 42-5159, Arizona Revised Statutes, as amended by Laws 2025, chapter 135, section 2 and chapter 247, section 2, is amended to read:

42-5159. Exemptions

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

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

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

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

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

5. Motor vehicle fuel and use fuel, the sales, distribution or use of which in this state is subject to the tax imposed under title 28,

chapter 16, article 1, use fuel that is sold to or used by a person holding a valid single trip use fuel tax permit issued under section 28-5739, aviation fuel, the sales, distribution or use of which in this state is subject to the tax imposed under section 28-8344, and jet fuel, the sales, distribution or use of which in this state is subject to the tax imposed under article 8 of this chapter.

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

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

8. Purchases of:

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

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

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

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

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

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

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

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

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

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

13. Tangible personal property purchased by:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15. Tangible personal property sold by:

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

(b) A nonprofit organization that is exempt from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the organization is associated with a major league baseball team or a national touring professional golfing association and no part of the organization's net earnings inures to the benefit of any private shareholder or individual. This subdivision does not apply to an organization that is owned, managed or controlled, in whole or in part, by a major league baseball team, or its owners, officers, employees or agents, or by a major league baseball association or professional golfing association, or its owners, officers, employees or agents, unless the organization conducted or operated exhibition events in this state before January 1, 2018 that were exempt from transaction privilege tax under section 42-5073.

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

16. Drugs and medical oxygen, including delivery hose, mask or tent, regulator and tank, if prescribed by a member of the medical, dental or veterinarian profession who is licensed by law to administer such substances.

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

18. Prescription eyeglasses and contact lenses.

19. Insulin, insulin syringes and glucose test strips.

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

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

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

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

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

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

26. Food, drink or condiment and accessory tangible personal property that are acquired for use by or provided to a school district or charter school if they are to be either served or prepared and served to persons for consumption on the premises of a public school in the school district or on the premises of the charter school during school hours.

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

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

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

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

31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity purchased by a qualified environmental technology manufacturer, producer or processor as defined in section 41-1514.02 and directly used or consumed in generating or providing on-site power or energy solely for environmental technology manufacturing, producing or processing or environmental protection. This paragraph applies for twenty full consecutive calendar or fiscal years from the date the first paper manufacturing machine is placed in service. In the case of an environmental technology manufacturer, producer or processor that does not manufacture paper, the time period begins with the date the first manufacturing, processing or production equipment is placed in service.

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

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

(b) Public educational institutions.

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

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

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

35. Liquid, solid or gaseous chemicals used in manufacturing, processing, fabricating, mining, refining, metallurgical operations,

research and development and, beginning on January 1, 1999, printing, if using or consuming the chemicals, alone or as part of an integrated system of chemicals, involves direct contact with the materials from which the product is produced for the purpose of causing or allowing a chemical or physical change to occur in the materials as part of the production process. This paragraph does not include chemicals that are used or consumed in activities such as packaging, storage or transportation but does not affect any exemption for such chemicals that is otherwise provided by this section. For the purposes of this paragraph, "printing" means a commercial printing operation and includes job printing, engraving, embossing, copying and bookbinding.

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

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

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

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

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

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

40. Through December 31, 1994, tangible personal property sold pursuant to a personal property liquidation transaction, as defined in section 42-5061. From and after December 31, 1994, tangible personal property sold pursuant to a personal property liquidation transaction, as defined in section 42-5061, if the gross proceeds of the sales were included in the measure of the tax imposed by article 1 of this chapter or if the personal property liquidation was a casual activity or transaction.

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

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

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

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

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

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

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

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

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

48. Tangible personal property sold by a nonprofit organization that is exempt from taxation under section 501(c)(6) of the internal revenue code if the organization produces, organizes or promotes cultural

or civic related festivals or events and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

49. Prepared food, drink or condiment donated by a restaurant as classified in section 42-5074, subsection A to a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that regularly serves meals to the needy and indigent on a continuing basis at no cost.

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

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

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

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

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

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

54. Coal acquired from an owner or operator of a power plant by a person that is responsible for refining coal if both of the following apply:

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

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

55. Tangible personal property incorporated or fabricated into a project described in section 42-5075, subsection ~~O~~ P, that is located within the exterior boundaries of an Indian reservation for which the

owner, as defined in section 42-5075, of the project is an Indian tribe or an affiliated Indian. For the purposes of this paragraph:

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

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

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

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

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

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

(ii) Prepaid calling cards for telecommunications services.

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

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

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

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

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

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

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

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

5. Machinery and equipment used directly for energy storage for later electrical use. For the purposes of this paragraph:

(a) "Electric utility scale" means a person that is engaged in a business activity described in section 42-5063, subsection A or such person's equipment or wholesale electricity suppliers.

(b) "Energy storage" means commercially available technology for electric utility scale that is capable of absorbing energy, storing energy for a period of time and thereafter dispatching the energy and that uses mechanical, chemical or thermal processes to store energy.

(c) "Machinery and equipment used directly" means all machinery and equipment that are used for electric energy storage from the point of receipt of such energy in order to facilitate storage of the electric energy to the point where the electric energy is released.

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

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

8. Aircraft, navigational and communication instruments and other accessories and related equipment sold to:

(a) A person:

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

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

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

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

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

(b) Any foreign government.

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

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

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

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

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

13. Groundwater measuring devices required under section 45-604.

14. Machinery and equipment consisting of agricultural aircraft, tractors, off-highway vehicles, tractor-drawn implements, self-powered implements, machinery and equipment necessary for extracting milk, and machinery and equipment necessary for cooling milk and livestock, and drip irrigation lines not already exempt under paragraph 7 of this subsection and that are used for commercially producing agricultural, horticultural, viticultural and floricultural crops and products in this state. For the purposes of this paragraph:

(a) "Off-highway vehicles" means off-highway vehicles as defined in section 28-1171 that are modified at the time of sale to function as a tractor or to tow tractor-drawn implements and that are not equipped with a modified exhaust system to increase horsepower or speed or an engine that is more than one thousand cubic centimeters or that have a maximum speed of fifty miles per hour or less.

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

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

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

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

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

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

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

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

17. Clean rooms that are used for manufacturing, processing, fabrication or research and development, as defined in paragraph 15 of this subsection, of semiconductor products. For the purposes of this paragraph, "clean room" means all property that comprises or creates an environment where humidity, temperature, particulate matter and contamination are precisely controlled within specified parameters, without regard to whether the property is actually contained within that environment or whether any of the property is affixed to or incorporated into real property. Clean room:

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

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

18. Machinery and equipment that are used directly in feeding poultry, environmentally controlling housing for poultry, moving eggs within a production and packaging facility or sorting or cooling eggs. This exemption does not apply to vehicles used for transporting eggs.

19. Machinery or equipment, including related structural components and containment structures, that is employed in connection with manufacturing, processing, fabricating, job printing, refining, mining, natural gas pipelines, metallurgical operations, telecommunications, producing or transmitting electricity or research and development and that is used directly to meet or exceed rules or regulations adopted by the

federal energy regulatory commission, the United States environmental protection agency, the United States nuclear regulatory commission, the Arizona department of environmental quality or a political subdivision of this state to prevent, monitor, control or reduce land, water or air pollution. For the purposes of this paragraph, "containment structure" means a structure that prevents, monitors, controls or reduces noxious or harmful discharge into the environment.

20. Machinery and equipment that are used in commercially producing livestock, livestock products or agricultural, horticultural, viticultural or floricultural crops or products in this state, including production by a person representing or working on behalf of such a person in a manner described in section 42-5075, subsection ~~O~~ P, if the machinery and equipment are used directly and primarily to prevent, monitor, control or reduce air, water or land pollution.

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

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

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

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

22. Qualifying equipment that is purchased from and after June 30, 2004 through December 31, 2028 by a qualified business under section 41-1516 for harvesting or processing qualifying forest products removed from qualifying projects as defined in section 41-1516. To qualify for this exemption, the qualified business must obtain and present its certification from the Arizona commerce authority at the time of purchase.

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

24. Computer data center equipment sold to the owner, operator or qualified colocation tenant of a computer data center that is certified by the Arizona commerce authority under section 41-1519 or an authorized agent of the owner, operator or qualified colocation tenant during the

qualification period for use in the qualified computer data center. For the purposes of this paragraph, "computer data center", "computer data center equipment", "qualification period" and "qualified colocation tenant" have the same meanings prescribed in section 41-1519.

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

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

2. Janitorial equipment and hand tools.

3. Office equipment, furniture and supplies.

4. Tangible personal property used in selling or distributing activities, other than the telecommunications transmissions described in subsection B, paragraph 16 of this section.

5. Motor vehicles required to be licensed by this state, except buses or other urban mass transit vehicles specifically exempted pursuant to subsection B, paragraph 12 of this section, without regard to the use of such motor vehicles.

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

7. Motors and pumps used in drip irrigation systems.

8. Machinery and equipment or tangible personal property used by a contractor in performing a contract.

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

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

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

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

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

1. Fees charged by a municipally owned utility to persons constructing residential, commercial or industrial developments or

connecting residential, commercial or industrial developments to a municipal utility system or systems if the fees are segregated and used only for capital expansion, system enlargement or debt service of the utility system or systems.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

~~I.~~ H. For the purposes of subsection B of this section:

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

2. "Aircraft" includes:

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

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

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

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

Sec. 19. Repeal

Section 42-5159, Arizona Revised Statutes, as amended by Laws 2025, chapter 251, section 13, is repealed.

Sec. 20. Section 42-6009, Arizona Revised Statutes, is amended to read:

42-6009. Online lodging; definitions

A. Except as provided by this section, a city, town or other taxing jurisdiction may not levy a transaction privilege, sales, use, franchise or other similar tax or fee, however denominated, on the business of operating an online lodging marketplace or, in the case of an online lodging marketplace that is licensed pursuant to section 42-5005, subsection L, on any online lodging transaction facilitated by the online lodging marketplace or on any online lodging operator with respect to any online lodging transaction for which it has received documentation that the online lodging marketplace has remitted or will remit the applicable tax to the department pursuant to section 42-5014, subsection E.

B. In the case of an online lodging marketplace that is licensed pursuant to section 42-5005, subsection L, a city, town or other taxing jurisdiction may levy a transaction privilege, sales, use, franchise or other similar tax or fee on an online lodging marketplace from any activity subject to tax under the model city tax code, with the tax base for an online LODGING marketplace being limited pursuant to section 42-5076, subject to the following conditions:

1. The city, town or other taxing jurisdiction tax must be administered in a manner that is uniform with the treatment of online lodging marketplaces, online lodging operators and online lodging transactions provided by chapter 5 of this title, except that:

(a) The city, town or other taxing jurisdiction tax rate may be different from the state tax rate prescribed by section 42-5010.

(b) The city, town or other taxing jurisdiction tax may apply to online lodging transactions involving rentals of lodging accommodations in the city, town or other taxing jurisdiction for more than twenty-nine consecutive days. With respect to any tax on rentals of lodging accommodations for more than twenty-nine consecutive days, in the case of an online lodging marketplace that has registered pursuant to section 42-5005, subsection L, the city, town or other taxing jurisdiction tax must uniformly apply to all lodging accommodations in the city, town or other taxing jurisdiction for thirty consecutive days or more, and the tax base for the tax must be limited exclusively to online lodging transactions facilitated by an online lodging marketplace for rentals of lodging accommodations for thirty consecutive days or more and located in the applicable city, town or other taxing jurisdiction.

2. The city, town or other taxing jurisdiction tax shall be administered, collected and enforced by the department and distributed to the city, town or other taxing jurisdiction in a uniform manner.

3. The city, town or other taxing jurisdiction tax imposed on online lodging marketplaces and online lodging operators must be uniform with all other taxpayers engaging in the same activity within the jurisdictional boundaries of the city, town or other taxing jurisdiction.

4. Any city, town or other taxing jurisdiction tax is subject to:

(a) Section 42-6002, relating to audits.

(b) Section 42-2003, subsection ~~X~~ W, relating to confidential information.

(c) Section 42-5003, subsection B, relating to judicial enforcement.

(d) Section 42-5005, subsection L, relating to registration of online lodging marketplaces.

(e) Section 42-5014, subsection E, relating to tax returns.

5. The city, town or other taxing jurisdiction tax may not be collected from an online lodging operator with respect to any online lodging transaction or transactions for which the online lodging operator has received written notice or documentation from a registered online lodging marketplace that it has remitted or will remit the applicable city, town or other taxing jurisdiction tax with respect to those transactions to the department pursuant to section 42-5014, subsection E.

C. For the purposes of this section, "lodging accommodations", "online lodging marketplace", "online lodging operator" and "online lodging transaction" have the same meanings prescribed in section 42-5076.

Sec. 21. Section 43-105, Arizona Revised Statutes, is amended to read:

43-105. Internal revenue code; definition; application

A. FOR THE PURPOSES OF COMPUTING INCOME TAX PURSUANT TO THIS TITLE, FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, "INTERNAL REVENUE CODE" MEANS THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS AMENDED, IN EFFECT ON JANUARY 1, 2026, INCLUDING THOSE PROVISIONS THAT BECAME EFFECTIVE DURING 2025 WITH THE SPECIFIC ADOPTION OF ALL RETROACTIVE EFFECTIVE DATES, BUT EXCLUDING ANY CHANGES TO THE CODE ENACTED AFTER JANUARY 1, 2026.

~~A.~~ B. For the purposes of computing income tax pursuant to this title, for taxable years beginning from and after December 31, 2024 THROUGH DECEMBER 31, 2025, "internal revenue code" means the United States internal revenue code of 1986, as amended, in effect on January 1, 2025, including those provisions that became effective during 2024 with the specific adoption of all retroactive effective dates, ~~but excluding any changes to the code enacted after January 1, 2025~~ AND INCLUDING THOSE PROVISIONS OF PUBLIC LAW 119-21 THAT ARE RETROACTIVELY EFFECTIVE DURING TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024 THROUGH DECEMBER 31, 2025.

~~B.~~ C. For the purposes of computing income tax pursuant to this title, for taxable years beginning from and after December 31, 2023 through December 31, 2024, "internal revenue code" means the United States internal revenue code of 1986, as amended, in effect on January 1, 2024, including those provisions that became effective during 2023 with the specific adoption of all retroactive effective dates, and including those provisions OF PUBLIC LAW 119-21 that are retroactively effective during taxable years beginning from and after December 31, 2023 through December 31, 2024.

~~C.~~ D. For the purposes of computing income tax pursuant to this title, for taxable years beginning from and after December 31, 2022 through December 31, 2023, "internal revenue code" means the United States internal revenue code of 1986, as amended, in effect on January 1, 2023, including those provisions that became effective during 2022 with the specific adoption of all retroactive effective dates, and including those provisions OF PUBLIC LAW 119-21 that are retroactively effective during taxable years beginning from and after December 31, 2022 through December 31, 2023.

~~D.~~ E. For the purposes of computing income tax pursuant to this title, for taxable years beginning from and after December 31, 2021 through December 31, 2022, "internal revenue code" means the United States internal revenue code of 1986, as amended, in effect on January 1, 2022, including those provisions that became effective during 2021 with the specific adoption of all retroactive effective dates, and including those provisions of the chips and science act of 2022 (P.L. 117-167), the inflation reduction act of 2022 (P.L. 117-169), ~~and~~ the consolidated appropriations act, 2023 (P.L. 117-328) AND PUBLIC LAW 119-21 that are retroactively effective during taxable years beginning from and after December 31, 2021 through December 31, 2022.

~~E.~~ F. For the purposes of computing income tax pursuant to this title, for taxable years beginning from and after December 31, 2020 through December 31, 2021, "internal revenue code" means the United States internal revenue code of 1986, as amended, in effect on March 11, 2021, including those provisions that became effective during 2020 with the specific adoption of all retroactive effective dates and including those provisions of the PPP extension act of 2021 (P.L. 117-6) and the infrastructure investment and jobs act (P.L. 117-58) that are retroactively effective during taxable years beginning from and after December 31, 2020 through December 31, 2021.

~~F.~~ G. For the purposes of computing income tax pursuant to this title, for taxable years beginning from and after December 31, 2019 through December 31, 2020, "internal revenue code" means the United States internal revenue code of 1986, as amended, in effect on January 1, 2020, including those provisions that became effective during 2019 with the specific adoption of all retroactive effective dates, and including those provisions of the families first coronavirus response act (P.L. 116-127), the coronavirus aid, relief, and economic security act (P.L. 116-136), the paycheck protection program flexibility act of 2020 (P.L. 116-142), the consolidated appropriations act, 2021 (P.L. 116-260) and the American rescue plan act of 2021 (P.L. 117-2) that are retroactively effective during taxable years beginning from and after December 31, 2019 through December 31, 2020.

~~G.~~ H. For the purposes of computing income tax pursuant to this title, for taxable years beginning from and after December 31, 2018 through December 31, 2019, "internal revenue code" means the United States internal revenue code of 1986, as amended, in effect on January 1, 2019, including those provisions that became effective during 2018 with the specific adoption of all retroactive effective dates, and including those provisions of the taxpayer first act (P.L. 116-25), the further consolidated appropriations act, 2020 (P.L. 116-94), the coronavirus aid, relief, and economic security act (P.L. 116-136) and the consolidated appropriations act, 2021 (P.L. 116-260) that are retroactively effective during taxable years beginning from and after December 31, 2018 through December 31, 2019.

~~H.~~ I. For the purposes of computing income tax pursuant to this title, for taxable years beginning from and after December 31, 2017 through December 31, 2018, "internal revenue code" means the United States internal revenue code of 1986, as amended, in effect on January 1, 2018, including those provisions that became effective during 2017 with the specific adoption of all retroactive effective dates, and including those provisions of the bipartisan budget act of 2018 (P.L. 115-123), the consolidated appropriations act, 2018 (P.L. 115-141), the further consolidated appropriations act, 2020 (P.L. 116-94), the coronavirus aid, relief, and economic security act (P.L. 116-136) and the consolidated appropriations act, 2021 (P.L. 116-260) that are retroactively effective during taxable years beginning from and after December 31, 2017 through December 31, 2018.

~~I.~~ J. For the purposes of computing income tax pursuant to this title, for taxable years beginning from and after December 31, 2016 through December 31, 2017, "internal revenue code" means the United States internal revenue code of 1986, as amended, in effect on January 1, 2017, including those provisions that became effective during 2016 with the specific adoption of all federal retroactive effective dates, and including those provisions of the disaster tax relief and airport and airway extension act of 2017 (P.L. 115-63), the tax cuts and jobs act (P.L. 115-97), the bipartisan budget act of 2018 (P.L. 115-123), the consolidated appropriations act, 2018 (P.L. 115-141), the further consolidated appropriations act, 2020 (P.L. 116-94) and the coronavirus aid, relief, and economic security act (P.L. 116-136) that are retroactively effective during taxable years beginning from and after December 31, 2016 through December 31, 2017.

~~J.~~ K. For the purposes of computing income tax pursuant to this title, for taxable years beginning from and after December 31, 2015 through December 31, 2016, "internal revenue code" means the United States internal revenue code of 1986, as amended, in effect on January 1, 2016, including those provisions that became effective during 2015 with the specific adoption of all federal retroactive effective dates, and including those provisions of the United States appreciation for olympians and paralympians act of 2016 (P.L. 114-239), the tax cuts and jobs act (P.L. 115-97), the consolidated appropriations act, 2018 (P.L. 115-141), the further consolidated appropriations act, 2020 (P.L. 116-94) and the coronavirus aid, relief, and economic security act (P.L. 116-136) that are retroactively effective during taxable years beginning from and after December 31, 2015 through December 31, 2016.

~~K. For the purposes of computing income tax pursuant to this title, for taxable years beginning from and after December 31, 2014 through December 31, 2015, "internal revenue code" means the United States internal revenue code of 1986, as amended, in effect on January 1, 2015, including those provisions that became effective during 2014 with the specific adoption of all federal retroactive effective dates, and including those provisions of the slain officer family support act of 2015 (P.L. 114-7), the don't tax our fallen public safety heroes act (P.L. 114-14), the surface transportation and veterans health care choice improvement act of 2015 (P.L. 114-41), the consolidated appropriations act, 2016 (P.L. 114-113), the consolidated appropriations act, 2018 (P.L. 115-141) and the coronavirus aid, relief, and economic security act (P.L. 116-136) that are retroactively effective during taxable years beginning from and after December 31, 2014 through December 31, 2015.~~

Sec. 22. Section 43-222, Arizona Revised Statutes, is amended to read:

43-222. Income tax credit review schedule

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

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

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

3. For years ending in 2 and 7, sections 43-1073, 43-1082, 43-1085, 43-1086, 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1164, 43-1165, and 43-1181.

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

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

Sec. 23. Section 43-301, Arizona Revised Statutes, is amended to read:

43-301. Individual returns; definition

A. A full-year or part-year resident individual shall file a return with the department if, for the taxable year, the individual's gross income was greater than the amount of the standard deduction allowed under ~~subsection~~ SECTION 43-1041, subsection A ~~as adjusted for inflation pursuant to section 43-1041, subsection H~~.

B. A nonresident individual shall file a return with the department if, for the taxable year, the individual's gross income was greater than the amount under subsection A of this section determined for a full-year or part-year resident individual multiplied by the percentage that the individual's Arizona gross income is of the individual's federal adjusted gross income.

C. In the case of a husband and wife, the spouse who controls the disposition of or who receives or spends community income as well as the spouse who is taxable on such income is liable for the payment of taxes imposed by this title on such income. If a joint return is filed, the liability for the tax on the aggregate income is joint and several.

D. This section applies regardless of whether an individual is required to file a return under the internal revenue code or whether the individual has any federal adjusted gross income for the taxable year.

E. For the purposes of this section, "gross income" means gross income as defined in the internal revenue code minus income included in gross income but excluded from taxation under this title.

Sec. 24. Section 43-323, Arizona Revised Statutes, is amended to read:

43-323. Place and form of filing returns

A. All returns required by this title shall be in such a form as the department may from time to time prescribe and shall be filed with the department.

B. The department shall prescribe a short form return for individual taxpayers who:

1. Are eligible and elect to pay tax based on the optional tax tables pursuant to section 43-1012.

2. Elect to claim the optional standard deduction pursuant to section 43-1041, subsection A, but not the increased amount for charitable deductions under section 43-1041, subsection ~~I~~ H.

3. Elect not to file for credits against income tax liability other than those contained in sections 43-1072, 43-1072.01, 43-1072.02, 43-1073 and 43-1073.01.

4. Are not required to add any income under section 43-1021 and do not elect any subtractions under section 43-1022, except for the exemptions allowed under section 43-1023.

C. The department may provide a simplified return form for individual taxpayers who:

1. Are eligible and elect to pay tax based on the optional tax tables pursuant to section 43-1012.

2. Are residents for the full taxable year.

3. File as single individuals or married couples filing joint returns under section 43-309.

4. Are not sixty-five years of age or older or blind at the end of the taxable year.

5. Claim no exemptions under section 43-1023 for the taxable year.

6. Elect to claim the optional standard deduction under section 43-1041, subsection A, but not the increased amount for charitable deductions under section 43-1041, subsection ~~I~~ H.

7. Are not required to add any income under section 43-1021 and do not elect to claim any subtractions under section 43-1022 or file for any

credits under chapter 10, article 5 of this title, except the credits provided by sections 43-1072.01, 43-1072.02 and 43-1073.

8. Do not elect to contribute a portion of any tax refund as provided by any provision of chapter 6, article 1 of this title. Notwithstanding any provision of chapter 6, article 1 of this title, a simplified return form under this subsection shall not include any space for the taxpayer to so contribute a portion of a refund.

D. The department shall prepare blank forms for the returns and furnish them on request. Failure to receive or secure the form does not relieve any taxpayer from making any return required.

E. An individual income tax preparer who prepares more than ten original income tax returns that are timely filed during any taxable year that begins from and after December 31, 2017 shall file electronically all individual tax returns prepared by that tax preparer, for that taxable year and each subsequent taxable year. An individual income tax preparer may not charge a separate fee to the taxpayer for filing a return using the department's electronic filing program. This subsection does not apply if the taxpayer elects to have the return filed on paper or if the return cannot be filed electronically for reasons outside of the tax preparer's control.

F. Fiduciary returns, partnership returns, withholding returns and corporate returns shall be filed electronically for taxable years beginning from and after December 31, 2019, or when the department establishes an electronic filing program, whichever is later. Any person who is required to file electronically pursuant to this subsection may apply to the director, on a form prescribed by the department, for an annual waiver from the electronic filing requirement. The director may grant the waiver, which may be renewed for one subsequent year, if any of the following applies:

1. The taxpayer has no computer.

2. The taxpayer has no internet access.

3. Any other circumstance considered to be worthy by the director exists.

G. A waiver is not required if the return cannot be electronically filed for reasons beyond the taxpayer's control, including situations in which the taxpayer was instructed by either the internal revenue service or the department of revenue to file by paper.

Sec. 25. Section 43-1022, Arizona Revised Statutes, is amended to read:

43-1022. Subtractions from Arizona gross income

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

1. The amount of exemptions allowed by section 43-1023.

2. Benefits, annuities and pensions in an amount totaling not more than $2,500 received from one or more of the following:

(a) The United States government service retirement and disability fund, the United States foreign service retirement and disability system and any other retirement system or plan established by federal law, except retired or retainer pay of the uniformed services of the United States that qualifies for a subtraction under paragraph 26 of this section.

(b) The Arizona state retirement system, the corrections officer retirement plan, the public safety personnel retirement system, the elected officials' retirement plan, an optional retirement program established by the Arizona board of regents under section 15-1628, an optional retirement program established by a community college district board under section 15-1451 or a retirement plan established for employees of a county, city or town in this state.

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

4. Interest income received on obligations of the United States, minus any interest on indebtedness, or other related expenses, and deducted in arriving at Arizona gross income, that were incurred or continued to purchase or carry such obligations.

5. The excess of a partner's share of income required to be included under section 702(a)(8) of the internal revenue code over the income required to be included under chapter 14, article 2 of this title.

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

7. The amount allowed by section 43-1025 for contributions during the taxable year of agricultural crops to charitable organizations.

8. The portion of any wages or salaries paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal work opportunity credit, the empowerment zone employment credit, the credit for employer paid social security taxes on employee cash tips and the Indian employment credit that the taxpayer received under sections 45A, 45B, 51(a) and 1396 of the internal revenue code.

9. The amount of exploration expenses that is determined pursuant to section 617 of the internal revenue code, that has been deferred in a taxable year ending before January 1, 1990 and for which a subtraction has not previously been made. The subtraction shall be made on a ratable basis as the units of produced ores or minerals discovered or explored as a result of this exploration are sold.

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

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

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

(a) In taxable years beginning before December 31, 2025, $3,000. In the case of a husband and wife who file separate returns, the subtraction may be taken by either taxpayer or may be divided between them, but the total subtractions allowed both husband and wife may not exceed $3,000.

(b) In taxable years beginning from and after December 31, 2025, $5,000 for a single individual or head of household.

(c) For taxable years beginning from and after December 31, 2025, $10,000 for a married couple filing a joint return. In the case of a husband and wife who file separate returns, the subtraction may be taken by either taxpayer or may be divided between them, but the total subtractions allowed both husband and wife may not exceed $10,000.

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

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

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

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

17. For property placed in service:

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

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

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

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

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

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

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

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

(b) $4,000 per beneficiary for a married couple filing a joint return. In the case of a husband and wife who file separate returns, the subtraction may be taken by either taxpayer or may be divided between them, but the total subtractions allowed both husband and wife may not exceed $4,000 per beneficiary.

20. The portion of the net operating loss carryforward that would have been allowed as a deduction in the current year pursuant to section 172 of the internal revenue code if the election described in section 172(b)(1)(H) of the internal revenue code had not been made in the year of the loss that exceeds the actual net operating loss carryforward that was deducted in arriving at federal adjusted gross income. This subtraction only applies to taxpayers who made an election under section 172(b)(1)(H) of the internal revenue code as amended by section 1211 of the American recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by section 13 of the worker, homeownership, and business assistance act of 2009 (P.L. 111-92).

21. For taxable years beginning from and after December 31, 2013, the amount of any net capital gain included in federal adjusted gross income for the taxable year derived from investment in a qualified small business as determined by the Arizona commerce authority pursuant to section 41-1518.

22. An amount of any net long-term capital gain included in federal adjusted gross income for the taxable year that is derived from an investment in an asset acquired after December 31, 2011, as follows:

(a) For taxable years beginning from and after December 31, 2012 through December 31, 2013, ten percent of the net long-term capital gain included in federal adjusted gross income.

(b) For taxable years beginning from and after December 31, 2013 through December 31, 2014, twenty percent of the net long-term capital gain included in federal adjusted gross income.

(c) For taxable years beginning from and after December 31, 2014, twenty-five percent of the net long-term capital gain included in federal adjusted gross income. For the purposes of this paragraph, a transferee that receives an asset by gift or at the death of a transferor is considered to have acquired the asset when the asset was acquired by the transferor. If the date an asset is acquired cannot be verified, a subtraction under this paragraph is not allowed.

23. If an individual is not claiming itemized deductions pursuant to section 43-1042, the amount of premium costs for long-term care insurance, as defined in section 20-1691.

24. The amount of eligible access expenditures paid or incurred during the taxable year to comply with the requirements of the Americans with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9, article 8 as provided by section 43-1024.

25. For taxable years beginning from and after December 31, 2017, the amount of any net capital gain included in Arizona gross income for the taxable year that is derived from the exchange of one kind of legal

tender for another kind of legal tender. For the purposes of this paragraph:

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

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

26. Benefits, annuities and pensions received as retired or retainer pay of the uniformed services of the United States in amounts as follows:

(a) For taxable years through December 31, 2018, an amount totaling not more than $2,500.

(b) For taxable years beginning from and after December 31, 2018 through December 31, 2020, an amount totaling not more than $3,500.

(c) For taxable years beginning from and after December 31, 2020, the full amount received.

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

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

(b) $4,000 per beneficiary for a married couple filing a joint return. In the case of a husband and wife who file separate returns, the subtraction may be taken by either taxpayer or may be divided between them, but the total subtractions allowed both husband and wife may not exceed $4,000 per beneficiary.

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

29. To the extent not already excluded from Arizona gross income under the internal revenue code, the value of virtual currency and non-fungible tokens the taxpayer received pursuant to an airdrop at the time of the airdrop. This paragraph may not be interpreted as providing a subtraction for any appreciation in value that occurs from holding the virtual currency after the initial receipt of the airdrop. For the purposes of this paragraph:

(a) "Airdrop" means the receipt of virtual currency through a means of distribution of virtual currency to the distributed ledger addresses of multiple taxpayers.

(b) "Non-fungible token" has the same meaning prescribed in section 43-1028.

(c) "Virtual currency" has the same meaning prescribed in section 43-1028.

30. The amount allowed as a subtraction by section 43-1028 for gas fees not already included in the taxpayer's virtual currency or non-fungible token basis.

31. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024, TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE INTERNAL REVENUE CODE, THE AMOUNT OF QUALIFIED TIPS RECEIVED DURING THE TAXABLE YEAR THAT IS DEDUCTED UNDER SECTION 224 OF THE INTERNAL REVENUE CODE.

32. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024, TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE INTERNAL REVENUE CODE, THE AMOUNT OF QUALIFIED OVERTIME COMPENSATION RECEIVED DURING THE TAXABLE YEAR THAT IS DEDUCTED UNDER SECTION 225 OF THE INTERNAL REVENUE CODE.

33. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE INTERNAL REVENUE CODE, THE AMOUNT OF A DISTRIBUTION FROM AN ACCOUNT ESTABLISHED PURSUANT TO SECTION 530A OF THE INTERNAL REVENUE CODE.

34. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE INTERNAL REVENUE CODE, THE AMOUNT OF CHILD AND DEPENDENT CARE EXPENSES FOR A QUALIFYING INDIVIDUAL UNDER SECTION 21 OF THE INTERNAL REVENUE CODE PAID OR INCURRED BY THE TAXPAYER FOR THE TAXABLE YEAR THAT EXCEEDS THE AMOUNT OF THE FEDERAL CREDIT THAT THE TAXPAYER RECEIVED UNDER SECTION 21 OF THE INTERNAL REVENUE CODE.

35. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, THE AMOUNT AUTHORIZED BY SECTION 43-1030 FOR THE TAXABLE YEAR RELATING TO DISTRIBUTIONS FROM A PENSION OR RETIREMENT ACCOUNT.

36. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, THE AMOUNT TOTALING NOT MORE THAN $6,000 THAT IS CONTRIBUTED DURING THE TAXABLE YEAR TO A RETIREMENT ACCOUNT TO THE EXTENT THAT THE CONTRIBUTIONS WERE NOT DEDUCTED IN COMPUTING FEDERAL ADJUSTED GROSS INCOME. THE TOTAL AMOUNT SUBTRACTED UNDER THIS PARAGRAPH AND SECTION 43-1030 MAY NOT EXCEED $6,000 FOR A TAXPAYER WHO IS A SINGLE PERSON, A MARRIED PERSON FILING SEPARATELY OR A HEAD OF HOUSEHOLD OR $12,000 FOR A MARRIED COUPLE FILING A JOINT RETURN. FOR THE PURPOSES OF THIS PARAGRAPH, "RETIREMENT ACCOUNT" MEANS A ROTH INDIVIDUAL RETIREMENT ACCOUNT UNDER SECTION 408A OF THE INTERNAL REVENUE CODE.

37. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024 THROUGH DECEMBER 31, 2025, TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE INTERNAL REVENUE CODE, THE AMOUNT DEDUCTED FOR A QUALIFIED INDIVIDUAL UNDER SECTION 151(d)(5)(C) OF THE INTERNAL REVENUE CODE.

38. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024 THROUGH DECEMBER 31, 2025, TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE INTERNAL REVENUE CODE, THE AMOUNT DEDUCTED FOR QUALIFIED PASSENGER VEHICLE LOAN INTEREST UNDER SECTION 163(h)(4) OF THE INTERNAL REVENUE CODE.

Sec. 26. Title 43, chapter 10, article 3, Arizona Revised Statutes, is amended by adding section 43-1030, to read:

43-1030. Subtraction for distributions from a pension or retirement account; limits; definitions

A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, IN COMPUTING ARIZONA ADJUSTED GROSS INCOME, A TAXPAYER WHO IS SIXTY YEARS OF AGE OR OLDER DURING THE TAXABLE YEAR MAY SUBTRACT FROM ARIZONA GROSS INCOME, TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME PURSUANT TO SECTION 43-1022 OR THE INTERNAL REVENUE CODE, AN AMOUNT TOTALING NOT MORE THAN $6,000 RECEIVED FROM A DISTRIBUTION TO A QUALIFIED INDIVIDUAL FROM A PENSION OR RETIREMENT ACCOUNT.

B. FOR A TAXPAYER WHOSE ARIZONA GROSS INCOME IS $75,000 OR MORE FOR A TAXPAYER WHO IS A SINGLE PERSON, A MARRIED PERSON FILING SEPARATELY OR A HEAD OF HOUSEHOLD OR $150,000 OR MORE FOR A MARRIED COUPLE FILING A JOINT RETURN, THE SUBTRACTION AMOUNT PRESCRIBED BY SUBSECTION A OF THIS SECTION SHALL BE REDUCED BY SIX PERCENT OF THE AMOUNT THAT THE TAXPAYER'S INCOME EXCEEDS THE AMOUNT PRESCRIBED BY THIS SUBSECTION FOR THE TAXPAYER'S FILING STATUS, BUT NOT BELOW ZERO.

C. THE TOTAL AMOUNT SUBTRACTED UNDER THIS SECTION AND SECTION 43-1022, PARAGRAPH 36 MAY NOT EXCEED $6,000 FOR A TAXPAYER WHO IS A SINGLE PERSON, A MARRIED PERSON FILING SEPARATELY OR A HEAD OF HOUSEHOLD OR $12,000 FOR A MARRIED COUPLE FILING A JOINT RETURN.

D. FOR THE PURPOSES OF THIS SECTION:

1. "PENSION" MEANS EITHER OF THE FOLLOWING:

(a) A DEFINED BENEFIT PLAN AUTHORIZED UNDER THE INTERNAL REVENUE CODE PAID TO AN INDIVIDUAL.

(b) PERIODIC, FIXED AMOUNT RETIREMENT PAYMENTS MADE BY THE UNITED STATES MILITARY, THE UNITED STATES CIVIL SERVICE OR A STATE OR LOCAL GOVERNMENT OR A PRIVATE EMPLOYER TO FORMER EMPLOYEES AND SURVIVING SPOUSES OF FORMER EMPLOYEES FOR PRIOR SERVICES PERFORMED.

2. "QUALIFIED INDIVIDUAL" MEANS:

(a) THE TAXPAYER, IF THE TAXPAYER HAS ATTAINED SIXTY YEARS OF AGE BEFORE THE CLOSE OF THE TAXABLE YEAR.

(b) IN THE CASE OF A JOINT RETURN, THE TAXPAYER'S SPOUSE, IF THE TAXPAYER'S SPOUSE HAS ATTAINED SIXTY YEARS OF AGE BEFORE THE CLOSE OF THE TAXABLE YEAR.

3. "RETIREMENT ACCOUNT" INCLUDES:

(a) A QUALIFIED RETIREMENT PLAN UNDER SECTIONS 401 AND 403 OF THE INTERNAL REVENUE CODE AND AN ELIGIBLE DEFERRED COMPENSATION PLAN UNDER SECTION 457 OF THE INTERNAL REVENUE CODE.

(b) AN INDIVIDUAL RETIREMENT ACCOUNT UNDER SECTION 408 OF THE INTERNAL REVENUE CODE, INCLUDING A SIMPLIFIED EMPLOYEE PENSION AS DEFINED IN SECTION 408(k) OF THE INTERNAL REVENUE CODE AND A SIMPLE RETIREMENT ACCOUNT AS DEFINED IN SECTION 408(p) OF THE INTERNAL REVENUE CODE.

Sec. 27. Section 43-1041, Arizona Revised Statutes, is amended to read:

43-1041. Optional standard deduction

A. A taxpayer may elect to take a standard deduction ~~as follows:~~

~~1. In the case of a single person or a married person filing separately, the standard deduction is $12,200, subject to subsection H of this section.~~

~~2. In the case of a single person who is a head of a household, the standard deduction is $18,350, subject to subsection H of this section.~~

~~3. In the case of a married couple filing a joint return, the standard deduction is $24,400, subject to subsection H of this section~~. THE AMOUNT OF THE STANDARD DEDUCTION IS THE AMOUNT OF THE FEDERAL BASIC STANDARD DEDUCTION DETERMINED PURSUANT TO SECTION 63 OF THE INTERNAL REVENUE CODE FOR THE TAXPAYER'S FILING STATUS.

B. The standard deduction provided for in subsection A of this section is in lieu of all itemized deductions allowed by section 43-1042, which are to be subtracted from Arizona adjusted gross income in computing taxable income.

C. The standard deduction is allowed if the taxpayer so elects. The election is made by the taxpayer claiming on the tax return the amount provided for in this section in lieu of the itemized deductions allowed under section 43-1042. Electing to file a short form return or a simplified return that does not allow itemized deductions to be claimed is considered to be an election to claim the standard deduction.

D. In the case of a husband and wife, the standard deduction provided for in subsection A of this section is not allowed to either if the taxable income of one of the spouses is determined without regard to the standard deduction.

E. The standard deduction provided for by subsection A of this section is not allowed in the case of a taxable year of less than twelve months on account of a change in the accounting period.

F. Except as provided in subsection G of this section, a change of an election to take, or not to take, the standard deduction for any taxable year may be made after the filing of the return for that year.

G. A taxpayer is not allowed to change an election to take, or not to take, the standard deduction if:

1. The spouse of the taxpayer filed a separate return for any taxable year corresponding, for the purposes of subsection D of this section, to the taxable year of the taxpayer unless both of the following apply:

(a) The spouse makes a change of election with respect to the standard deduction for the taxable year covered in the separate return consistent with the change of election sought by the taxpayer.

(b) The taxpayer and spouse consent in writing to the assessment, within such a period as may be agreed on with the department, of any deficiency, to the extent attributable to the change of election, even though at the time of filing the consent the assessment of the deficiency would otherwise be prevented by the operation of any law or rule of law.

2. The tax liability of the taxpayer or the taxpayer's spouse for the taxable year has been compromised.

~~H. For each taxable year beginning from and after December 31, 2019, the department shall adjust the dollar amounts prescribed by subsection A, paragraphs 1, 2 and 3 of this section for inflation in the same manner in which the federal basic standard deduction is adjusted for inflation pursuant to section 63 of the internal revenue code.~~

~~I. For taxable years beginning from and after December 31, 2018,~~

H. The standard deduction allowed under subsection A of this section shall be increased AS FOLLOWS:

1. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2018 THROUGH DECEMBER 31, 2025, by the amount equal to twenty-five percent of the total amount of a taxpayer's charitable deductions that would have been allowed if the taxpayer elected to claim itemized deductions under section 43-1042 rather than elect the standard deduction. For taxable years beginning from and after December 31, 2021 THROUGH DECEMBER 31, 2025, the department shall adjust the percentage prescribed in this ~~subsection~~ PARAGRAPH according to the average annual change in the metropolitan Phoenix consumer price index published by the United States department of labor, bureau of labor statistics, except that the adjusted percentage may not exceed one hundred percent. The revised percentage shall be raised to the nearest whole percent and may not be revised below the amounts prescribed in the prior taxable year.

2. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, BY AN AMOUNT EQUAL TO THE TOTAL AMOUNT OF A TAXPAYER'S CHARITABLE CONTRIBUTIONS AS DEFINED IN SECTION 170(c) OF THE INTERNAL REVENUE CODE. THE INCREASE ALLOWED BY THIS PARAGRAPH MAY NOT EXCEED:

(a) IN THE CASE OF A SINGLE PERSON OR A MARRIED PERSON FILING SEPARATELY, $1,000.

(b) IN THE CASE OF A MARRIED COUPLE FILING A JOINT RETURN, $2,000.

Sec. 28. Section 43-1042, Arizona Revised Statutes, is amended to read:

43-1042. Itemized deductions

A. Except as provided by subsections B, ~~and~~ C AND D of this section, at the election of the taxpayer, and in lieu of the standard deduction allowed by section 43-1041, in computing taxable income the taxpayer may take the amount of itemized deductions allowable for the taxable year pursuant to subtitle A, chapter 1, subchapter B, parts VI and VII, but subject to the ~~limitations~~ LIMITS prescribed by sections 67, 68 and 274 of the internal revenue code.

B. In lieu of the amount of the federal itemized deduction for expenses paid for medical care allowed under section 213 of the internal revenue code, the taxpayer may deduct the full amount of such expenses.

C. A taxpayer shall not claim both a deduction provided by this section and a credit allowed by this title with respect to the same charitable contributions. This subsection applies to any contribution for which a credit is allowed by this title even if the contribution is treated as a payment of state income tax.

D. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, IN LIEU OF THE AMOUNT OF THE FEDERAL ITEMIZED DEDUCTION FOR STATE AND LOCAL TAXES ALLOWED UNDER SECTION 164(b)(7) OF THE INTERNAL REVENUE CODE, THE TAXPAYER MAY DEDUCT UP TO $10,000 OF THAT AMOUNT FOR SUCH STATE AND LOCAL TAXES.

~~D.~~ E. The taxpayer may add any interest expense paid by the taxpayer for the taxable year that is equal to the amount of federal credit for interest on certain home mortgages allowed by section 25 of the internal revenue code.

Sec. 29. Section 43-1073.01, Arizona Revised Statutes, is amended to read:

43-1073.01. Dependent tax credit

A. A credit is allowed against the taxes imposed by this title for a taxable year for each dependent of a taxpayer as provided by this section.

B. For taxpayers whose federal adjusted gross income is less than $200,000 for a taxpayer who is a single person, a married person filing separately or a head of household or is less than $400,000 for a married couple filing a joint return, the amount of the credit is:

1. ~~$100~~ $125 for each dependent who is under seventeen years of age at the end of the taxable year.

2. $25 for each dependent who is at least seventeen years of age at the end of the taxable year.

C. For taxpayers whose federal adjusted gross income is $200,000 or more for a taxpayer who is a single person, a married person filing separately or a head of household or is $400,000 or more for a married couple filing a joint return, the amount of the credit is:

1. ~~$100~~ $125 minus five percent for each $1,000, or fraction thereof, by which the taxpayer's federal adjusted gross income exceeds the applicable threshold provided in this subsection for each dependent who is under seventeen years of age at the end of the taxable year.

2. $25 minus five percent for each $1,000, or fraction thereof, by which the taxpayer's federal adjusted gross income exceeds the applicable

threshold provided in this subsection for each dependent who is at least seventeen years of age at the end of the taxable year.

D. In the case of a nonresident or part-year resident taxpayer, the credit allowed under this section is allowed in the percentage that the taxpayer's Arizona gross income is of the federal adjusted gross income.

Sec. 30. Repeal

Section 43-1074, Arizona Revised Statutes, is repealed.

Sec. 31. Section 43-1074.01, Arizona Revised Statutes, is amended to read:

43-1074.01. Credit for increased research activities

A. A credit is allowed against the taxes imposed by this title in an amount determined pursuant to section 41 of the internal revenue code, except that:

1. The amount of the credit is based on the excess, if any, of the qualified research expenses for the taxable year over the base amount as defined in section 41(c) of the internal revenue code and is computed as follows:

(a) If the excess is $2,500,000 or less:

(i) For taxable years beginning before December 31, 2030, the credit is equal to twenty-four percent of that amount.

(ii) For taxable years beginning from and after December 31, 2030, the credit is equal to twenty percent of that amount.

(b) If the excess is over $2,500,000:

(i) For taxable years beginning before December 31, 2030, the credit is equal to $600,000 plus fifteen percent of any amount exceeding $2,500,000.

(ii) For taxable years beginning from and after December 31, 2030, the credit is equal to $500,000 plus eleven percent of any amount exceeding $2,500,000.

(c) For taxable years beginning from and after December 31, 2011, an additional credit amount is allowed if the taxpayer made basic research payments during the taxable year to a university under the jurisdiction of the Arizona board of regents. The additional credit amount is equal to ten percent of the excess, if any, of the basic research payments over the qualified organization base period amount for the taxable year. The department shall not allow credit amounts under this subdivision and section 43-1168, subsection A, paragraph 1, subdivision (d) that exceed, in the aggregate, a combined total of $10,000,000 in any calendar year. Subject to that limit, on application by the taxpayer, the department shall certify credit amounts under this subdivision and section 43-1168, subsection A, paragraph 1, subdivision (d) based on priority placement established by the date that the taxpayer filed the application. For taxable years beginning from and after December 31, 2014, any basic research payments used to determine the additional credit under this subdivision must first receive certification from the Arizona commerce authority pursuant to section 41-1507.01. The additional credit amount under this subdivision shall not exceed the amount allowed based on actual basic research payments or the department's certification, whichever is less. If an application, if certified in full, would exceed the $10,000,000 limit, the department shall certify only an amount within that limit. After the limit is attained, the department shall deny any subsequent applications regardless of whether other certified amounts are not actually claimed as a credit or other taxpayers fail to qualify to actually claim certified amounts. Notwithstanding ~~subsections~~ SUBSECTION B ~~and C~~ of this section, any amount of the additional credit under this subdivision that exceeds the taxes otherwise due under this title is not refundable, but may be carried forward to the next five consecutive taxable years. For the purposes of this subdivision, "basic research payments" and "qualified organization base period amount" have the same meanings prescribed by section 41(e) of the internal revenue code without regard to whether the taxpayer is or is not a corporation.

2. Qualified research includes only research conducted in this state, including research conducted at a university in this state and paid for by the taxpayer.

3. If two or more taxpayers, including partners in a partnership and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, share in the eligible expenses, each taxpayer is eligible to receive a proportionate share of the credit.

4. The credit under this section applies only to expenses incurred from and after December 31, 2000.

5. The termination provisions of section 41 of the internal revenue code do not apply.

B. ~~Except as provided by subsection C of this section,~~ If the allowable credit under this section exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the credit that is claimed for taxable years beginning before January 1, 2022 and that is not used to offset taxes may be carried forward to the next fifteen consecutive taxable years and the amount of the credit that is claimed for taxable years beginning from and after December 31, 2021 and that is not used to offset taxes may be carried forward to the next ten consecutive taxable years. The amount of credit carryforward from taxable years beginning from and after December 31, 2002 that may be used in any taxable year may not exceed the taxpayer's tax liability under this title minus the credit under this section for the current taxable year's qualified research expenses. ~~A taxpayer who carries forward any amount of credit under this subsection may not thereafter claim a refund of any amount of the credit under subsection C of this section.~~

~~C. For taxable years beginning from and after December 31, 2009, if a taxpayer who claims a credit under this section employs fewer than one~~

~~hundred fifty persons in the taxpayer's trade or business and if the allowable credit under this section exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, in lieu of carrying the excess amount of credit forward to subsequent taxable years under subsection B of this section, the taxpayer may elect to receive a refund as follows:~~

~~1. The taxpayer must apply to the Arizona commerce authority for qualification for the refund pursuant to section 41-1507 and submit a copy of the authority's certificate of qualification to the department of revenue with the taxpayer's income tax return.~~

~~2. The amount of the refund is limited to seventy-five percent of the amount by which the allowable credit under this section exceeds the taxpayer's tax liability under this title for the taxable year. The remainder of the excess amount of the credit is waived.~~

~~3. The refund shall be paid in the manner prescribed by section 42-1118.~~

~~4. The refund is subject to setoff under section 42-1122.~~

~~5. If the department determines that a credit refunded pursuant to this subsection is incorrect or invalid, the excess credit issued may be treated as a tax deficiency pursuant to section 42-1108.~~

Sec. 32. Repeal

Sections 43-1083 and 43-1083.02, Arizona Revised Statutes, are repealed.

Sec. 33. Section 43-1083.03, Arizona Revised Statutes, is amended to read:

43-1083.03. Credit for qualified facilities

A. For taxable years beginning from and after December 31, 2012 through December 31, 2030, a credit is allowed against the taxes imposed by this title for qualifying investment and employment in expanding or locating a qualified facility in this state. To qualify for the credit, after June 30, 2012 the taxpayer must invest in a new qualified facility or expand an existing qualified facility in this state and produce new full-time employment positions where the job duties are associated with the location of the qualifying investment. The taxpayer must meet the employee compensation and employee health benefit requirements prescribed by section 41-1512.

B. The amount of the credit is computed as follows:

1. Ten percent of the lesser of:

(a) The total qualifying investment in the qualified facility.

(b) Either:

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

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

2. The amount of the credit shall not exceed the postapproval amount determined by the Arizona commerce authority under section 41-1512, subsection P.

3. Subject to subsections G and ~~J~~ I of this section:

(a) The credit amount computed under paragraph 1 of this subsection is apportioned, and the taxpayer shall claim the credit in five equal annual installments in each of five consecutive taxable years.

(b) The taxpayer may claim all five annual installments of a credit that was preapproved before January 1, 2031 by the Arizona commerce authority notwithstanding any intervening repeal or other termination of the credit.

C. To claim the credit the taxpayer must:

1. Conduct a business that qualifies under section 41-1512.

2. Receive preapproval and postapproval from the Arizona commerce authority pursuant to section 41-1512.

3. Submit to the department a copy of a current and valid certification of qualification issued to the taxpayer by the Arizona commerce authority.

D. To be counted for the purposes of the credit, an employee must have been employed with job duties associated with the qualified facility for at least ninety days during the taxable year in a permanent full-time employment position of at least one thousand seven hundred fifty hours per year. An employee who is hired during the last ninety days of the taxable year shall be considered a new employee during the next taxable year. To be counted for the purposes of the credit during the first taxable year of employment, the employee must not have been previously employed by the taxpayer within twelve months before the current date of hire. The terms of employment must comply in all cases with the requirements of section 41-1512 and be certified by the Arizona commerce authority.

E. Co-owners of a business, including partners in a partnership, members of a limited liability company and shareholders of an S corporation, as defined in section 1361 of the internal revenue code, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all owners of the business may not exceed the amount that would have been allowed for a sole owner of the business.

F. If the allowable tax credit for a taxable year exceeds the income taxes otherwise due on the claimant's income, or if there are no state income taxes due on the claimant's income, the amount of the claim not used as an offset against income taxes shall be paid to the taxpayer in the same manner as a refund under section 42-1118. Refunds made pursuant to this subsection are subject to setoff under section 42-1122.

If the department determines that a refund is incorrect or invalid, the excess refund may be treated as a tax deficiency pursuant to section 42-1108.

G. ~~Except as provided by subsection H of this section,~~ If, within five taxable years after first receiving a credit pursuant to this section, the certification of qualification of a business is terminated or revoked under section 41-1512, other than for reasons beyond the control of the business as determined by the Arizona commerce authority, the taxpayer is disqualified from credits under this section in subsequent taxable years. On a determination that the taxpayer has committed fraud or relocated outside of this state within five taxable years after first receiving a credit pursuant to this section, the credits allowed the taxpayer in all taxable years pursuant to this section are subject to recapture pursuant to this subsection. This subsection applies only in the case of the termination or revocation of a certification of qualification under section 41-1512. This subsection does not apply if, in any taxable year, a taxpayer otherwise does not qualify for or fails to claim the credit under this section. The recapture of credits is computed by increasing the amount of taxes imposed in the year following the year of termination or revocation by the full amount of all credits previously allowed under this section.

~~H. A taxpayer who claims a credit under section 43-1074 may not claim a credit under this section with respect to the same full-time employment positions.~~

~~I.~~ H. The department of revenue shall adopt rules and prescribe forms and procedures as necessary for the purposes of this section. The department of revenue and the Arizona commerce authority shall collaborate in adopting rules as necessary to avoid duplication and contradictory requirements while accomplishing the intent and purposes of this section.

~~J.~~ I. Each taxable year after the postapproval of the credit under section 41-1512, subsection P, when the taxpayer files the taxpayer's income tax return, the taxpayer shall:

1. Notify the department, on a form prescribed by the department, of any full-time employment position for which a credit was claimed under this section and that was vacant for more than one hundred fifty days after the date the full-time employment position was originally filled to the end of that taxable year. The period that a full-time employment position was vacant may not include the period before the full-time employment position was filled for the first time.

2. Reduce the portion of the credit claimed for the taxable year pursuant to subsection B, paragraph 3 of this section by $4,000 for each full-time employment position reported pursuant to paragraph 1 of this subsection.

Sec. 34. Section 43-1121, Arizona Revised Statutes, is amended to read:

43-1121. Additions to Arizona gross income; corporations

In computing Arizona taxable income for a corporation, the following amounts shall be added to Arizona gross income:

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

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

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

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

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

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

7. Expenses and interest relating to tax-exempt income on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from the tax imposed by this title. Financial institutions, as defined in section 6-101, shall be governed by section 43-961, paragraph 2.

8. Commissions, rentals and other amounts paid or accrued to a domestic international sales corporation controlled by the payor corporation if the domestic international sales corporation is not required to report its taxable income to this state because its income is not derived from or attributable to sources within this state. If the domestic international sales corporation is subject to article 4 of this chapter, the department shall prescribe by rule the method of determining the portion of the commissions, rentals and other amounts that are paid or accrued to the controlled domestic international sales corporation and that shall be deducted by the payor. For the purposes of this paragraph, "control" means direct or indirect ownership or control of fifty percent

or more of the voting stock of the domestic international sales corporation by the payor corporation.

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

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

11. Amortization of costs incurred to install pollution control devices and deducted pursuant to the internal revenue code or the amount of deduction for depreciation taken pursuant to the internal revenue code on pollution control devices for which an election is made pursuant to section 43-1129.

12. The amount of depreciation or amortization of costs of child care facilities deducted pursuant to section 167 or 188 of the internal revenue code for which an election is made to amortize pursuant to section 43-1130.

13. The loss of an insurance company that is exempt under section 43-1201 to the extent that it is included in computing Arizona gross income on a consolidated return pursuant to section 43-947.

14. The amount by which the depreciation or amortization computed under the internal revenue code with respect to property for which a credit was taken under section 43-1170 exceeds the amount of depreciation or amortization computed pursuant to the internal revenue code on the Arizona adjusted basis of the property.

15. The amount by which the adjusted basis computed under the internal revenue code with respect to property THAT IS POLLUTION CONTROL EQUIPMENT for which a credit was ~~claimed under section 43-1170~~ TAKEN BEFORE TAXABLE YEAR 2026 and that is sold or otherwise disposed of during the taxable year exceeds the adjusted basis of the property computed under ~~section 43-1170~~ THE SECTION IN WHICH THE CREDIT WAS TAKEN.

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

17. The amount by which a capital loss carryover allowable pursuant to section 1341(b)(5) of the internal revenue code exceeds the capital loss carryover allowable pursuant to section 43-1130.01, subsection F.

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

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

20. Any amount deducted pursuant to section 170 of the internal revenue code representing contributions to a school tuition organization for which a credit is claimed under section 43-1183 or 43-1184.

21. If a subtraction is or has been taken by the taxpayer under section 43-1124, in the current or a prior taxable year for the full amount of eligible access expenditures paid or incurred to comply with the requirements of the Americans with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9, article 8, any amount of eligible access expenditures that is recognized under the internal revenue code, including any amount that is amortized according to federal amortization schedules, and that is included in computing Arizona taxable income for the current taxable year.

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

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

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

23. The amount of any deduction that is claimed in computing Arizona gross income and that represents a donation of a school site for which a credit is claimed under section 43-1181.

24. The amount of any motion picture production costs that was deducted pursuant to the internal revenue code for which a tax credit is claimed under section 43-1165.

Sec. 35. Section 43-1122, Arizona Revised Statutes, is amended to read:

43-1122. Subtractions from Arizona gross income; corporations

In computing Arizona taxable income for a corporation, the following amounts shall be subtracted from Arizona gross income:

1. The excess of a partner's share of income required to be included under section 702(a)(8) of the internal revenue code over the income required to be included under chapter 14, article 2 of this title.

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

3. The amount allowed by section 43-1025 for contributions during the taxable year of agricultural crops to charitable organizations.

4. The portion of any wages or salaries paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal work opportunity credit, the empowerment zone employment credit, the credit for employer paid social security taxes on employee cash tips and

the Indian employment credit that the taxpayer received under sections 45A, 45B, 51(a) and 1396 of the internal revenue code.

5. With respect to property that is sold or otherwise disposed of during the taxable year by a taxpayer that complied with section 43-1121, paragraph 4 with respect to that property, the amount of depreciation that has been allowed pursuant to section 167(a) of the internal revenue code to the extent that the amount has not already reduced Arizona taxable income in the current taxable year or prior taxable years.

6. With respect to a financial institution as defined in section 6-101, expenses and interest relating to tax-exempt income disallowed pursuant to section 265 of the internal revenue code.

7. Dividends received from another corporation owned or controlled directly or indirectly by a recipient corporation. For the purposes of this paragraph, "control" means direct or indirect ownership or control of fifty percent or more of the voting stock of the payor corporation by the recipient corporation. Dividends shall have the meaning provided in section 316 of the internal revenue code. This subtraction shall apply without regard to section 43-961, paragraph 2 and article 4 of this chapter.

8. Interest income received on obligations of the United States.

9. The amount of dividend income from foreign corporations. For the purposes of this paragraph, gross up income as described in section 78 of the internal revenue code, ~~global intangible low-taxed~~ THE income as ~~defined~~ DESCRIBED in section 951A of the internal revenue code and subpart F income as defined in section 952 of the internal revenue code shall be considered foreign dividends.

10. The amount of net operating loss allowed by section 43-1123.

11. The amount of any state income tax refunds received that were included as income in computing federal taxable income.

12. The amount of expense recapture included in income pursuant to section 617 of the internal revenue code for mine exploration expenses.

13. The amount of deferred exploration expenses allowed by section 43-1127.

14. The amount of exploration expenses related to the exploration of oil, gas or geothermal resources, computed in the same manner and on the same basis as a deduction for mine exploration pursuant to section 617 of the internal revenue code. This computation is subject to the adjustments contained in section 43-1121, paragraph 10 and paragraphs 12 and 13 of this section relating to exploration expenses.

15. The amortization of pollution control devices allowed by section 43-1129.

16. The amount of amortization of the cost of child care facilities pursuant to section 43-1130.

17. The amount of income from a domestic international sales corporation required to be included in the income of its shareholders pursuant to section 995 of the internal revenue code.

18. The income of an insurance company that is exempt under section 43-1201 to the extent that it is included in computing Arizona gross income on a consolidated return pursuant to section 43-947.

19. The amount by which a capital loss carryover allowable pursuant to section 43-1130.01, subsection F exceeds the capital loss carryover allowable pursuant to section 1341(b)(5) of the internal revenue code.

20. An amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year computed as if the election described in section 168(k)(7) of the internal revenue code had been made for each applicable class of property in the year the property was placed in service.

21. The amount of eligible access expenditures paid or incurred during the taxable year to comply with the requirements of the Americans with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9, article 8 as provided by section 43-1124.

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

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

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

23. With respect to a public service corporation operating a water system or sewage disposal facility, the amount of monies or property received as a contribution in aid of construction. For the purposes of this paragraph:

(a) "Contribution in aid of construction" means any amount of monies or other property contributed to a public service corporation that provides water or sewage disposal services to the extent that the purpose of the contribution is to provide for expanding, improving or replacing the public service corporation's water system or sewage disposal facilities, including any amount of monies or other property contributed to a public service corporation for a water system or sewage disposal facility subject to a contingent obligation to repay the amount, in whole or in part, to the contributor.

(b) "Public service corporation" means a public service corporation as defined in article XV, section 2, Constitution of Arizona, that is regulated by the corporation commission.

Sec. 36. Repeal

Sections 43-1161 and 43-1164.03, Arizona Revised Statutes, are repealed.

Sec. 37. Section 43-1164.04, Arizona Revised Statutes, is amended to read:

43-1164.04. Credit for qualified facilities

A. For taxable years beginning from and after December 31, 2012 through December 31, 2030, a credit is allowed against the taxes imposed by this title for qualifying investment and employment in expanding or locating a qualified facility in this state. To qualify for the credit, after June 30, 2012 the taxpayer must invest in a new qualified facility or expand an existing qualified facility in this state and produce new full-time employment positions where the job duties are associated with the location of the qualifying investment. The taxpayer must meet the employee compensation and employee health benefit requirements prescribed by section 41-1512.

B. The amount of the credit is computed as follows:

1. Ten percent of the lesser of:

(a) The total qualifying investment in the qualified facility.

(b) Either:

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

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

2. The amount of the credit shall not exceed the postapproval amount determined by the Arizona commerce authority under section 41-1512, subsection P.

3. Subject to subsections G and ~~J~~ I of this section:

(a) The credit amount computed under paragraph 1 of this subsection is apportioned, and the taxpayer shall claim the credit in five equal annual installments in each of five consecutive taxable years.

(b) The taxpayer may claim all five annual installments of a credit that was preapproved before January 1, 2031 by the Arizona commerce authority notwithstanding any intervening repeal or other termination of the credit.

C. To claim the credit the taxpayer must:

1. Conduct a business that qualifies under section 41-1512.

2. Receive preapproval and postapproval from the Arizona commerce authority pursuant to section 41-1512.

3. Submit to the department a copy of a current and valid certification of qualification issued to the taxpayer by the Arizona commerce authority.

D. To be counted for the purposes of the credit, an employee must have been employed with job duties associated with the qualified facility for at least ninety days during the taxable year in a permanent full-time employment position of at least one thousand seven hundred fifty hours per year. An employee who is hired during the last ninety days of the taxable year shall be considered a new employee during the next taxable year. To be counted for the purposes of the credit during the first taxable year of employment, the employee must not have been previously employed by the taxpayer within twelve months before the current date of hire. The terms of employment must comply in all cases with the requirements of section 41-1512 and be certified by the Arizona commerce authority.

E. Co-owners of a business, including corporate partners in a partnership and members of a limited liability company, may each claim only the pro rata share of the credit allowed under this section based on the ownership interest. The total of the credits allowed all owners of the business may not exceed the amount that would have been allowed for a sole owner of the business.

F. If the allowable tax credit for a taxable year exceeds the income taxes otherwise due on the claimant's income, or if there are no state income taxes due on the claimant's income, the amount of the claim not used as an offset against income taxes shall be paid to the taxpayer in the same manner as a refund under section 42-1118. Refunds made pursuant to this subsection are subject to setoff under section 42-1122. If the department determines that a refund is incorrect or invalid, the excess refund may be treated as a tax deficiency pursuant to section 42-1108.

G. ~~Except as provided by subsection H of this section,~~ If, within five taxable years after first receiving a credit pursuant to this section, the certification of qualification of a business is terminated or revoked under section 41-1512, other than for reasons beyond the control of the business as determined by the Arizona commerce authority, the taxpayer is disqualified from credits under this section in subsequent taxable years. On a determination that the taxpayer has committed fraud or relocated outside of this state within five taxable years after first receiving a credit pursuant to this section, the credits allowed the taxpayer in all taxable years pursuant to this section are subject to recapture pursuant to this subsection. This subsection applies only in the case of the termination or revocation of a certification of qualification under section 41-1512. This subsection does not apply if, in any taxable year, a taxpayer otherwise does not qualify for or fails to claim the credit under this section. The recapture of credits is computed by increasing the amount of taxes imposed in the year following the year of termination or revocation by the full amount of all credits previously allowed under this section.

~~H. A taxpayer that claims a credit under section 43-1161 may not claim a credit under this section with respect to the same full-time employment positions.~~

~~I.~~ H. The department of revenue shall adopt rules and prescribe forms and procedures as necessary for the purposes of this section. The department of revenue and the Arizona commerce authority shall collaborate in adopting rules as necessary to avoid duplication and contradictory requirements while accomplishing the intent and purposes of this section.

~~J.~~ I. Each taxable year after the postapproval of the credit under section 41-1512, subsection P, when the taxpayer files the taxpayer's income tax return, the taxpayer shall:

1. Notify the department, on a form prescribed by the department, of any full-time employment position for which a credit was claimed under this section and that was vacant for more than one hundred fifty days after the date the full-time employment position was originally filled to the end of that taxable year. The period that a full-time employment position was vacant may not include the period before the full-time employment position was filled for the first time.

2. Reduce the portion of the credit claimed for the taxable year pursuant to subsection B, paragraph 3 of this section by $4,000 for each full-time employment position reported pursuant to paragraph 1 of this subsection.

Sec. 38. Section 43-1164.05, Arizona Revised Statutes, is amended to read:

43-1164.05. Credit for renewable energy investment and production for self-consumption by international operations centers; definitions

A. A credit is allowed against the taxes imposed by this title for investment in new renewable energy facilities that produce energy for self-consumption using renewable energy resources if the power will be used primarily for an international operations center.

B. The taxpayer is eligible for the credit if all of the following apply:

1. The taxpayer, or a third-party entity on behalf of or for the direct benefit of the taxpayer, invests at least $100,000,000 in one or more new renewable energy facilities in this state that produce energy for self-consumption using renewable energy resources. The minimum investment must be completed within a three-year period beginning on the date the initial application is received or by December 31, 2018, whichever is earlier.

2. A portion of the energy produced at each renewable energy facility is used for self-consumption in this state. By the fifth year a renewable energy facility is in operation, at least fifty-one percent of the energy produced must be used for self-consumption in this state. Self-consumption includes the power used by related entities if the

related entities are directly or indirectly under the same ownership interests that collectively own more than eighty percent. Power that a renewable energy facility transfers to a utility or power generated by a utility-owned renewable energy facility developed on behalf of or for the direct benefit of the taxpayer qualifies as self-consumption if the utility is the same utility that provides power to the owner's international operations center in this state.

3. The power that is used for self-consumption under paragraph 2 of this subsection is used for an international operations center in this state. A lessor of an international operations center facility that uses power for self-consumption under paragraph 2 of this subsection satisfies the requirements of this paragraph if the lessee is an international operations center and the power is transferred as part of the lease to the lessee.

C. Subject to subsection F of this section, the credit authorized by this section is $5,000,000 per year for five years for each renewable energy facility. The maximum credit allowed per taxpayer per year is $5,000,000. The taxpayer, including all affiliates of the taxpayer, may not cumulate tax credits under this section over different taxable years exceeding, in the aggregate, $25,000,000. The initial credit for each facility is claimed in the year that the facility becomes operational. A credit, other than carryovers allowed under subsection M of this section, may not be claimed for any taxable year beginning after December 31, 2025. An international operations center that is initially certified pursuant to section 41-1520, subsection C after December 31, 2018 may not claim the tax credit authorized by this section.

D. To qualify as a separate renewable energy facility for the purposes of this section, a facility must be located at least one mile from any other renewable energy facility for which the taxpayer is claiming a credit under this section.

E. To be eligible for the credit under this section, the taxpayer must apply to the department for certification of the credit on a form prescribed by the department. The application shall include:

1. The name, address and social security number or federal employer identification number of the applicant.

2. An estimate of the total investment the taxpayer will make, including investments made by a third-party entity on behalf of or for the direct benefit of the taxpayer, over a three-year period beginning on the date the application is received, in new renewable energy facilities in this state that produce energy for self-consumption using renewable energy resources. For investments made by a third party, a statement from the utility that provides power to the international operations center affirming that the investment in new renewable energy facilities is made on behalf of or for the direct benefit of the taxpayer satisfies the requirement of this paragraph.

3. The expected location of each of the taxpayer's facilities that comprise the total investment in paragraph 2 of this subsection and the earliest date that each facility is expected to be operational.

4. A statement that the portion of the power generated by each facility, as required by subsection B, paragraph 2 of this section, shall be for self-consumption and shall be used for international operations center use.

5. Any additional information that the department requires.

F. The department shall review each application under subsection E of this section and preapprove the taxpayer for a specified amount of credit that is authorized. Credits are allowed under this section on a first-come, first-served basis. The department may not authorize tax credits under this section that exceed in the aggregate a total of $10,000,000 for any calendar year. The portion of each year's limit that is reserved for each taxpayer must be based on the year that each credit is expected to be claimed using the dates provided in subsection E, paragraph 3 of this section. If the year a facility is completed is different from the estimated completion date provided in subsection E, paragraph 3 of this section, the taxpayer must amend the application with the new dates. If an application is received that, if authorized, would require the department to exceed the $10,000,000 limit, the department shall grant the applicant only the remaining credit amount that would not exceed the $10,000,000 limit. After the department authorizes $10,000,000 in tax credits, the department shall deny any subsequent applications that are received for that calendar year. The department may not authorize any additional tax credits that exceed the $10,000,000 limit even if the amounts that have been certified to any taxpayer are not claimed or a taxpayer otherwise fails to meet the requirements to claim the additional credit.

G. If a taxpayer fails to start construction within six months after submitting the application under subsection E of this section, the preapproval issued under subsection F of this section is void and all monies reserved from the limits specified in subsection F of this section revert back to the limit for the year for which they were reserved.

H. Each year after initial preapproval, on or before the anniversary date of the application specified in subsection E of this section, the taxpayer must submit to the department:

1. Documentation of the taxpayer's progress toward the investment required by subsection B, paragraph 1 of this section. This documentation is not required after the department receives a report stating that the required investment threshold has been reached.

2. Documentation for each facility that demonstrates that the required portion of the power generated by each renewable energy facility is for self-consumption as required by subsection B, paragraph 2 of this section.

3. If applicable, certification from the Arizona commerce authority pursuant to section 41-1520.

I. The taxpayer must submit a request for final certification to the department within thirty days after each of the renewable energy facilities for which an authorization was given under subsection F of this section becomes operational. Within thirty days after receiving a completed request under this subsection, the department shall review the request and either issue a final certification of the credit to the taxpayer or issue a denial of the credit if it is determined that the requirements of this section have not been met. Every final certification issued under this subsection must include a facility code issued by the department that is unique to each facility. To show that the facility has been certified, the taxpayer shall include with the tax return the facility code for each facility for which a credit is claimed. If the taxpayer is the owner or operator of an international operations center, the taxpayer must submit the request for final certification for each of the renewable energy facilities for which capital investment will be claimed towards the required investment threshold and must submit additional evidence to the department within sixty days after the end of the fifth year of operation of each facility that the requirements of subsection B, paragraph 2 of this section have been met.

J. If the taxpayer fails to make the required investment in renewable energy facilities within the time period required by subsection B, paragraph 1 of this section or if the certification of an international operations center has been revoked under section 41-1520 due to a failure to make a $1,250,000,000 investment in the center within ten years after certification or if the taxpayer fails to receive final certification of the credit under subsection I of this section, the taxpayer is not eligible and must cease claiming any further credits under this section and shall reimburse the amount of all credits previously received under this section. The reimbursement must be made on the taxpayer's income tax return for the taxable year in which it is first known that the required investment would not be made within the required time or the taxable year in which the certification was revoked. The department may give special consideration or allow a temporary exemption from reimbursement if there is extraordinary hardship due to factors beyond the taxpayer's control. If the reimbursement is due to revocation of the certification of an international operations center due to a failure to invest $1,250,000,000 in the center within ten years after certification, the credits shall be reimbursed in inverse proportion to the total capital investment made in the international operations center divided by $1,250,000,000. The department may require reimbursement before the tenth anniversary of certification of an international operations center if the facility has been closed or relocated or the taxpayer has otherwise demonstrated that the $1,250,000,000 investment will not be timely made. For taxpayers using investments made by third-party entities on behalf of or for the direct benefit of the taxpayer, the investment threshold is $1,500,000,000. A third-party entity may not include the owner or operator of the international operations center or, solely for the purposes of this subsection, the owner's or operator's affiliated entities.

K. If a particular facility ceases to meet the requirements of this section or if the facility is sold, the taxpayer may not claim any future credits related to that facility.

L. Co-owners of a business, including corporate partners in a partnership and corporate members of a limited liability company treated as a partnership, may each claim the pro rata share of the credit allowed under this section based on ownership interest. Only co-owners that are corporations may claim a share of the credit allowed under this section. The total of the credits allowed all the owners of the business may not exceed the amount that would have been allowed for a sole owner of the business.

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

~~N. A taxpayer may not claim a credit under this section and section 43-1164.03 regarding the same facilities.~~

~~O.~~ N. The department shall adopt rules and publish and prescribe forms and procedures as necessary to effectuate the purposes of this section.

~~P.~~ O. For the purposes of this section:

1. "Biomass" means organic material that is available on a renewable or recurring basis, including:

(a) Forest-related materials, including mill residues, logging residues, forest thinnings, slash, brush, low-commercial value materials or undesirable species, salt cedar and other phreatophyte or woody vegetation removed from river basins or watersheds and woody material harvested for the purpose of forest fire fuel reduction or forest health and watershed improvement.

(b) Agricultural-related materials, including orchard trees, vineyard, grain or crop residues, including straws and stover, aquatic plants and agricultural processed coproducts and waste products, including fats, oils, greases, whey and lactose.

(c) Animal waste, including manure and slaughterhouse and other processing waste.

(d) Solid woody waste materials, including landscape or right-of-way tree trimmings, rangeland maintenance residues, waste pallets, crates and manufacturing, construction and demolition wood wastes but excluding pressure-treated, chemically treated or painted wood wastes and wood contaminated with plastic.

(e) Crops and trees planted for the purpose of being used to produce energy.

(f) Landfill gas, wastewater treatment gas and biosolids, including organic waste by-products generated during the wastewater treatment process.

2. "International operations center" means a facility that is certified by the Arizona commerce authority pursuant to section 41-1520.

3. "Renewable energy facility" means a facility in which the taxpayer, or a third-party entity on behalf of and for the benefit of the taxpayer, invested at least $30,000,000, that has at least twenty megawatts generating capacity or a minimum typical annual generation of forty thousand megawatt hours, that is located on land in this state owned or leased by the taxpayer or a third-party entity on behalf of and for the benefit of the taxpayer and that produces electricity using a renewable energy resource.

4. "Renewable energy resource" means a resource that generates electricity through the use of only the following energy sources:

(a) Solar light.

(b) Solar heat.

(c) Wind.

(d) Biomass, including fuel cells supplied directly or indirectly with biomass generated fuels.

(e) Battery storage that is independent from or coupled with other sources.

Sec. 39. Section 43-1168, Arizona Revised Statutes, is amended to read:

43-1168. Credit for increased research activity

A. A credit is allowed against the taxes imposed by this title in an amount determined pursuant to section 41 of the internal revenue code, except that:

1. The amount of the credit is computed as follows:

(a) Add:

(i) The excess, if any, of the qualified research expenses for the taxable year over the base amount as defined in section 41(c) of the internal revenue code.

(ii) The basic research payments determined under section 41(e)(1)(A) of the internal revenue code.

(b) If the sum computed under subdivision (a) of this paragraph is $2,500,000 or less:

(i) For taxable years beginning before December 31, 2030, the credit is equal to twenty-four percent of that amount.

(ii) For taxable years beginning from and after December 31, 2030, the credit is equal to twenty percent of that amount.

(c) If the sum computed under subdivision (a) of this paragraph is over $2,500,000:

(i) For taxable years beginning before December 31, 2030, the credit is equal to $600,000 plus fifteen percent of any amount exceeding $2,500,000.

(ii) For taxable years beginning from and after December 31, 2030, the credit is equal to $500,000 plus eleven percent of any amount exceeding $2,500,000.

(d) For taxable years beginning from and after December 31, 2011, an additional credit amount is allowed if the taxpayer made basic research payments during the taxable year to a university under the jurisdiction of the Arizona board of regents. The additional credit amount is equal to ten percent of the excess, if any, of the basic research payments over the qualified organization base period amount for the taxable year. The department shall not allow credit amounts under this subdivision and section 43-1074.01, subsection A, paragraph 1, subdivision (c) that exceed, in the aggregate, a combined total of $10,000,000 in any calendar year. Subject to that limit, on application by the taxpayer, the department shall certify credit amounts under this subdivision and section 43-1074.01, subsection A, paragraph 1, subdivision (c) based on priority placement established by the date that the taxpayer filed the application. For taxable years beginning from and after December 31, 2014, any basic research payments used to determine the additional credit under this subdivision must first receive certification from the Arizona commerce authority pursuant to section 41-1507.01. The additional credit amount under this subdivision shall not exceed the amount allowed based on actual basic research payments or the department's certification, whichever is less. If an application, if certified in full, would exceed the $10,000,000 limit, the department shall certify only an amount within that limit. After the limit is attained, the department shall deny any subsequent applications regardless of whether other certified amounts are not actually claimed as a credit or other taxpayers fail to qualify to actually claim certified amounts. Notwithstanding ~~subsections~~ SUBSECTION B ~~and C~~ of this section, any amount of the additional credit under this subdivision that exceeds the taxes otherwise due under this title is not refundable, but may be carried forward to the next five consecutive taxable years. For the purposes of this subdivision, "basic research payments" and "qualified organization base period amount" have the same meanings prescribed by section 41(e) of the internal revenue code.

2. Qualified research includes only research conducted in this state, including research conducted at a university in this state and paid for by the taxpayer.

3. If two or more taxpayers, including corporate partners in a partnership, share in the eligible expenses, each taxpayer is eligible to receive a proportionate share of the credit.

4. The credit under this section applies only to expenses incurred from and after December 31, 1993.

5. The termination provisions of section 41 of the internal revenue code do not apply.

B. ~~Except as provided by subsection C of this section,~~ If the allowable credit under this section exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, the amount of the credit claimed for taxable years beginning before January 1, 2022 not used to offset taxes may be carried forward to the next fifteen consecutive taxable years, and the amount of the credit claimed for taxable years beginning from and after December 31, 2021 not used to offset taxes may be carried forward to the next ten consecutive taxable years. The amount of credit carryforward from taxable years beginning from and after December 31, 2002 that may be used under this subsection in any taxable year may not exceed the taxpayer's tax liability under this title minus the credit under this section for the current taxable year's qualified research expenses. ~~A taxpayer that carries forward any amount of credit under this subsection may not thereafter claim a refund of any amount of the credit under subsection C of this section.~~

~~C. For taxable years beginning from and after December 31, 2009, if a taxpayer that claims a credit under this section employs fewer than one hundred fifty persons in the taxpayer's trade or business and if the allowable credit under this section exceeds the taxes otherwise due under this title on the claimant's income, or if there are no taxes due under this title, in lieu of carrying the excess amount of credit forward to subsequent taxable years under subsection B of this section, the taxpayer may elect to receive a refund as follows:~~

~~1. The taxpayer must apply to the Arizona commerce authority for qualification for the refund pursuant to section 41-1507 and submit a copy of the authority's certificate of qualification to the department of revenue with the taxpayer's income tax return.~~

~~2. The amount of the refund is limited to seventy-five percent of the amount by which the allowable credit under this section exceeds the taxpayer's tax liability under this title for the taxable year. The remainder of the excess amount of the credit is waived.~~

~~3. The refund shall be paid in the manner prescribed by section 42-1118.~~

~~4. The refund is subject to setoff under section 42-1122.~~

~~5. If the department determines that a credit refunded pursuant to this subsection is incorrect or invalid, the excess credit issued may be treated as a tax deficiency pursuant to section 42-1108.~~

Sec. 40. Repeal

Section 43-1170, Arizona Revised Statutes, is repealed.

Sec. 41. Title 43, Arizona Revised Statutes, is amended by adding chapter 18, to read:

CHAPTER 18

SCHOLARSHIP GRANTING ORGANIZATIONS

ARTICLE 1. GENERAL PROVISIONS

43-1801. State election to participate; federal tax credit for individual contributions to scholarship granting organizations

A. THIS STATE ELECTS TO PARTICIPATE IN THE FEDERAL TAX CREDIT ESTABLISHED BY SECTION 25F OF THE INTERNAL REVENUE CODE FOR INDIVIDUALS WHO MAKE QUALIFIED CONTRIBUTIONS TO SCHOLARSHIP GRANTING ORGANIZATIONS.

B. THE DEPARTMENT SHALL COMPLY WITH ALL FEDERAL LAWS AND REGULATIONS TO ADMINISTER THE FEDERAL TAX CREDIT ESTABLISHED BY SECTION 25F OF THE INTERNAL REVENUE CODE TO ENSURE THIS STATE IS ELIGIBLE TO PARTICIPATE IN TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2026 AND ANNUALLY SUBMIT ALL OF THE REQUIRED INFORMATION TO THE UNITED STATES SECRETARY OF THE TREASURY FOR PARTICIPATION.

43-1802. Scholarship granting organizations; certification; list; rules

A. A NONPROFIT ORGANIZATION IN THIS STATE THAT IS EXEMPT OR THAT HAS APPLIED FOR EXEMPTION FROM FEDERAL TAXATION UNDER SECTION 501(c)(3) OF THE INTERNAL REVENUE CODE MAY APPLY TO THE DEPARTMENT FOR CERTIFICATION AS A SCHOLARSHIP GRANTING ORGANIZATION, AND THE DEPARTMENT SHALL CERTIFY THAT THE SCHOLARSHIP GRANTING ORGANIZATION MEETS THE REQUIREMENTS OF SECTION 25F OF THE INTERNAL REVENUE CODE AND THE APPLICABLE REGULATIONS OR GUIDANCE ISSUED BY THE UNITED STATES SECRETARY OF THE TREASURY.

B. ON OR BEFORE JANUARY 1 OF EACH YEAR, THE DEPARTMENT SHALL:

1. SUBMIT TO THE UNITED STATES SECRETARY OF THE TREASURY A LIST OF THE SCHOLARSHIP GRANTING ORGANIZATIONS THAT ARE CERTIFIED PURSUANT TO THIS SECTION AND THAT ARE LOCATED IN THIS STATE.

2. POST THE LIST SUBMITTED PURSUANT TO PARAGRAPH 1 OF THIS SUBSECTION ON THE DEPARTMENT'S OFFICIAL WEBSITE.

C. THE DEPARTMENT SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS AND PROCEDURES NECESSARY TO ADMINISTER THIS SECTION.

43-1803. Scholarships

FROM AND AFTER DECEMBER 31, 2026, A SCHOLARSHIP GRANTING ORGANIZATION THAT IS CERTIFIED BY THE DEPARTMENT AND ON THE LIST SUBMITTED PURSUANT TO SECTION 43-1802, SUBSECTION B, PARAGRAPH 1 MAY PROVIDE SCHOLARSHIPS TO ELIGIBLE STUDENTS FOR ANY QUALIFIED ELEMENTARY OR SECONDARY EDUCATION EXPENSES TO THE EXTENT ALLOWED UNDER FEDERAL LAW.

Sec. 42. Section 48-4203, Arizona Revised Statutes, is amended to read:

48-4203. Powers and duties of board of directors; reporting requirements; conflict of interest

A. The board of directors, on behalf of the district, may:

1. Adopt and use a corporate seal.

2. Sue and be sued.

3. Enter into contracts, including intergovernmental agreements under title 11, chapter 7, article 3, as necessary to carry out the purposes and requirements of this chapter. The district may contract with a county sports authority established under title 11, chapter 5 to carry out any power of the district.

4. Adopt administrative rules as necessary to administer and operate the district and any property under its jurisdiction.

5. Adopt rules that allow weighted voting by board members and establish conditions for terminating the district.

6. Employ an executive director and administrative and clerical employees, or contract for other management personnel, and prescribe the terms and conditions of their employment as necessary to carry out the purposes of the district.

7. Acquire by any lawful means and operate, maintain, encumber and dispose of real and personal property and interests in property. A district established under section 48-4202, subsection A in a county with a population of less than one million five hundred thousand persons may acquire real property by eminent domain. A district established under section 48-4202, subsection A in a county with a population of one million five hundred thousand persons or more or section 48-4202, subsection B shall not acquire real property by eminent domain. A district established under section 48-4202, subsection C shall not acquire or own real property or interests in real property.

8. Administer trusts declared or established for the district, receive and hold in trust or otherwise property located in or out of this state and, if not otherwise provided, dispose of the property for the benefit of the district.

9. Retain legal counsel and other consultants as necessary to carry out the purposes of the district.

B. The board of directors, on behalf of a district established pursuant to section 48-4202, subsection B, may:

1. Use revenues paid to the district ~~pursuant to section 42-5031 and other revenues the district may receive from other sources,~~ for the purposes set forth in section 48-4204, subsection B.

2. Enter into agreements with developers, contractors, tenants and other users of all or part of a multipurpose facility as determined appropriate.

3. Pledge all or part of the revenues ~~described in section 42-5031, subsection B~~ PAID TO THE DISTRICT to secure the district's bonds or other financial obligations issued or incurred under this chapter for the construction of all or part of a multipurpose facility.

C. The board of directors of a district established pursuant to section 48-4202, subsection B shall provide public outreach and education on the purpose and activities of the district, including:

1. Presentations to the governing bodies of the municipalities in the county in which the district is located.

2. Presentations to community, civic and business organizations.

3. Printed or electronic materials that support the purposes of this subsection.

D. The board of directors shall:

1. Appoint from among its members a chairperson, a secretary and such other officers as may be necessary to conduct its business. The board of directors may appoint the chief financial officer of the county as the district treasurer of a countywide district established under section 48-4202, subsection A in a county with a population of less than one million five hundred thousand persons. If the board does not appoint the chief financial officer, the county treasurer is designated ex officio as the treasurer. The board of directors of a district that is established pursuant to section 48-4202, subsection A in a county with a population of one million five hundred thousand persons or more or section 48-4202, subsection B shall designate a member of the board with financial management or accounting experience or a person with whom the board has contracted for financial management as treasurer of the district. The county treasurer is designated ex officio as the treasurer of a district that is established pursuant to section 48-4202, subsection C.

2. Keep and maintain a complete and accurate record of all its proceedings. All proceedings and records of the board shall be open to the public as required by title 38, chapter 3, article 3.1 and title 39, chapter 1.

3. Provide for the use, maintenance and operation of the properties and interests controlled by the district.

E. The board of directors of a district that is established pursuant to section 48-4202, subsection B shall:

1. Determine by agreement the distribution of revenues from operating and using the multipurpose facilities among the municipalities and any participating Indian tribe or community.

2. Report to the legislature by October 1 of each year regarding the activities, operations, revenues and expenditures of the district for the immediately preceding fiscal year. The board shall submit the annual report to the president of the senate and the speaker of the house of representatives and provide a copy of the report to the secretary of state. At the discretion of the chairpersons of the senate finance

committee and the house of representatives ways and means committee, or their successor committees, the committees may hold separate or joint hearings to consider the annual report prepared by the district.

3. Present to the joint legislative committee on capital review each project for the construction or reconstruction of any facility, structure, infrastructure or other improvement to real property of any kind in an amount exceeding $500,000.

F. The board of directors of a district that is established pursuant to section 48-4202, subsection A in a county with a population of more than one million five hundred thousand persons:

1. May enter into agreements with contractors, tenants and other users of all or part of the major league baseball facility or any adjacent building that is owned by the district and operated by the district or the professional baseball franchise organization that occupies the major league baseball facility or adjacent building as determined appropriate, including agreements for reconstructing, equipping, repairing, maintaining or improving the major league baseball facility or adjacent building.

2. On or before November 1 of each year through 2055, shall report to the joint legislative budget committee and the governor's office of strategic planning and budgeting regarding all new projects for reconstructing, equipping, repairing, maintaining or improving a major league baseball facility or any adjacent building that is paid for by the district from the county stadium district fund established pursuant to section 48-4231. The report shall indicate which projects the professional baseball franchise organization contributed monies toward and the amount of the contribution.

G. The directors, officers and employees of the district are subject to title 38, chapter 3, article 8 relating to conflicts of interest.

H. This state and political subdivisions of this state other than the district are not liable for any financial or other obligations of the district and the financial or other obligations do not constitute a debt or liability of this state or any political subdivision of this state, other than the district.

Sec. 43. Section 48-4204, Arizona Revised Statutes, is amended to read:

48-4204. Constructing and operating a stadium and other structures; regulating alcoholic beverages

A. From the taxes and surcharges levied pursuant to article 2 of this chapter for use with respect to major league baseball spring training, the district may acquire land and construct, finance, furnish, maintain, improve, operate, market and promote the use of existing or proposed major league baseball spring training facilities or stadiums and other structures, utilities, roads, parking areas or buildings necessary for full use of the training facilities or stadiums for sports and other purposes and do all things necessary or convenient to accomplish those purposes. The board shall require that any project undertaken by the district include financial participation from the county or municipality in which the project is located, from a private party or from any combination of these entities that equals or exceeds one-half of the amount to be expended or distributed by the district. Capital improvement funds expended by a county, municipality or private party for a purpose authorized by this section may be deemed financial participation with respect to any project the district may undertake.

B. From the taxes and charges levied or identified pursuant to section 48-4237 for use with respect to multipurpose facilities and from other monies lawfully available to the district, the district may acquire land and construct, finance, furnish, maintain, improve, operate, market and promote the use of multipurpose facilities and other structures, utilities, roads, parking areas or buildings necessary for full use of the multipurpose facilities and do all things necessary or convenient to accomplish those purposes. Public monies identified in section 48-4237~~, including monies distributed pursuant to section 42-5031,~~ may only be used for the components for a multipurpose facility that are owned by the district or that are publicly owned or for the following purposes:

1. Debt service for bonds issued by the district before January 1, 2009.

2. Contractual obligations incurred by the district before June 1, 2009.

3. Fiduciary, reasonable legal and administrative expenses of the district.

4. The design and construction of the hotel and convention center located on the multipurpose facility site.

C. For the public monies identified in section 48-4237~~, including monies distributed pursuant to section 42-5031,~~ and from which the district board has planned an expenditure of ~~five hundred thousand dollars~~ $500,000 or more, the following apply:

1. Each district board member shall provide advance notice of the consideration of the expenditure by the board to the person who holds the office that is responsible for that board member's appointment.

2. The notice prescribed in paragraph 1 of this subsection must be provided by regular mail delivered to the office that is responsible for that board member's appointment and may be preceded by any other form of notice. The notice must be provided at least two weeks before the date of the meeting and must be posted to the district's website on the day the notice is mailed.

3. The notice prescribed in paragraph 1 of this subsection must be accompanied by the board member's written statement as to whether the board member has any financial interest in the subject of the proposed expenditure by the board. The board members' written statements may be

provided in a single document that is prepared by the board's administrative personnel but must be signed by the board members and must be posted to the district's website with the notice prescribed in paragraph 1 of this subsection.

4. The district board may not artificially divide or fragment planned expenditures so as to circumvent the requirements of this subsection.

~~D. A district established pursuant to section 48-4202, subsection B may not use monies distributed pursuant to section 42-5031 for the salaries or compensation of any employee of the municipality in which the district is located.~~

~~E.~~ D. Pursuant to an intergovernmental agreement with the Arizona board of regents, from the revenues collected from assessments pursuant to section 48-4235 for use with respect to Arizona board of regents owned intercollegiate athletic facilities, the district may construct, reconstruct, finance, furnish, maintain and improve existing intercollegiate athletic facilities located on Arizona board of regents' property, including utilities, roads, parking areas or buildings necessary for full use of the athletic facilities.

~~F.~~ E. Title 34 applies to the district, except that regardless of the funding source for design and construction of facilities and structures the district may establish alternative systems and procedures, including the use of the design-build method of construction or the use of qualifications-based selection of contractors with experience in stadium design or construction, to expedite the design and construction or reconstruction of any of its facilities or structures or any facilities or structures leased to it or used by it pursuant to an intergovernmental agreement. For the purposes of this subsection:

1. "Design-build" means a process of entering into and managing a contract between the district and another party in which the other party agrees to both design and build a structure, a facility or other items specified in the contract.

2. "Qualifications-based selection" means a process of entering into and managing a contract between the district and another party in which the other party is selected by the district on the basis of the party's qualifications and experience in designing or constructing facilities, structures or other items similar to those the district is authorized to construct or lease. The other party may be selected by direct selection or by public competition.

~~G.~~ F. For the purposes of financing, designing, constructing, reconstructing or operating facilities or structures, the district is not the agent of any municipality, this state or any agency or instrumentality of this state participating in the funding of such facilities or structures.

~~H.~~ G. Subject to the requirements of title 4, the board of directors may permit and regulate the sale, use and consumption of alcoholic beverages at events held on property acquired, leased or subleased under this article.

Sec. 44. Section 48-4231.01, Arizona Revised Statutes, is amended to read:

48-4231.01. Financial and performance audits of districts owning multipurpose facilities; appearance before joint committee on capital review

A. Beginning in 2010 and every three years thereafter, the auditor general shall contract with an independent auditor to conduct a performance audit as defined in section 41-1278, including a financial audit, of each district organized under section 48-4202, subsection B. The independent auditor must have national status with expertise in evaluating public construction, ownership and management of capital improvements that include hospitality, convention and sports venue facilities. The audit must be completed within one hundred twenty days after the end of the fiscal year.

B. The audit shall include consideration of:

1. Capital costs, including debt service, of the multipurpose facility and other assets of the district.

2. The level of the district's indebtedness, the amount of principal, interest and other debt service expenses paid in the preceding fiscal year and the remaining term to maturity with respect to each outstanding bond issue.

3. Operation and maintenance costs of the multipurpose facility and other assets of the district.

4. The district's overall expenditures in the preceding fiscal year, including:

(a) The level of expenses for administration, planning, travel and entertainment.

(b) The success of those expenditures in supporting and achieving the district's purposes.

5. A description of and the amount of municipal payments ~~pursuant to section 42-5031, subsection D~~ during the preceding fiscal year and the cumulative amount of those payments through the end of the preceding fiscal year.

6. The public use of each component of the multipurpose facility.

7. Revenues derived from each component of the multipurpose facility and other revenues of the district by source.

8. District projects that are currently under construction and that are included in the district's plans for capital improvements and investment.

C. The audit shall make findings and recommendations regarding the construction, financing, operation and maintenance of each component of the multipurpose facility, including whether the facility exceeds, meets or fails to meet nationally recognized design and performance standards.

D. The district and the board of directors shall cooperate with and submit to the auditor general and the auditor contracted to conduct the audit information necessary to conduct and complete the audit in a timely manner.

E. Within forty-five days after the audit is released, the board of directors shall:

1. Hold a public hearing on the audit's findings and recommendations and allow any person to make or submit oral or written comments on the audit.

2. By majority vote adopt a public response agreeing, agreeing with reservations or disagreeing with each finding and recommendation in the audit.

F. The auditor general shall distribute copies of the audit and the board of director's response to:

1. The mayor and governing body of the municipality in which the district is located.

2. The governor.

3. The president of the senate and the speaker of the house of representatives.

4. The department of revenue and the state treasurer.

5. The secretary of state.

6. Any other person who requests a copy of the audit.

G. The cost incurred by the auditor general in contracting with independent auditors under this section is an operating expense of the district ~~and shall be paid from revenues payable to the district pursuant to section 42-5031~~. The auditor general shall deposit the payments in the audit services revolving fund established by section 41-1279.06.

H. At the request of the chairperson of the joint committee on capital review, the executive director or a representative of the board of directors shall appear before the joint committee on capital review to report on any aspect of the district's operation, including the activities and financial performance of the district during the previous fiscal year, the district's plans for capital improvements and investment and the district's response to the audit conducted under this section.

Sec. 45. Section 48-4231.02, Arizona Revised Statutes, is amended to read:

48-4231.02. Financial reports; database of expenditures

A. Each district established pursuant to section 48-4202, subsection B shall maintain on its official website a database of expenditures made by the district. The database shall allow users to:

1. Search and aggregate payments by payee.

2. Search and aggregate payments by project.

3. Search and aggregate payments by year.

4. Search and aggregate all payments made by the district.

5. Download information yielded by a user query.

B. Each expenditure listing contained in the database shall include:

1. The date and amount of each payment.

2. The name of the payee.

3. The project for which the payment was made.

4. The purpose for which the payment was made.

5. The fund or budget account from which the payment was made.

C. Each district established pursuant to section 48-4202, subsection B shall maintain on its official website the annual financial reports of the district and a listing and the sum of the payments made to the district ~~pursuant to section 42-5031~~ FROM THIS STATE BEFORE JULY 1, 2026.

Sec. 46. Section 48-4237, Arizona Revised Statutes, is amended to read:

48-4237. Transaction privilege tax; multipurpose facilities; rate; administration

A. The board of directors of a district established pursuant to section 48-4202, subsection B by resolution may seek authority for the district to levy a transaction privilege tax for multipurpose facilities or other taxes or charges pursuant to subsection E of this section, in addition to or in lieu of other revenues collected pursuant to this article, to be used and spent for the purposes described in section 48-4204, subsection B for the multipurpose facilities.

B. The board of directors shall present the question to the governing bodies of the participating municipalities. The district is exempt from section 16-226. The governing body of each municipality by resolution may approve the district's request to place a question seeking authority for the district to levy a multipurpose facilities district transaction privilege tax solely within the district, or to impose other taxes or charges pursuant to subsection E of this section on the ballot of an election pursuant to this section held on the same date or on the same ballot as the regularly scheduled election of one or more of the participating municipalities or the state or on any of the four dates prescribed by section 16-204. If the governing body of each municipality approves the district's request for an election, and if a majority of the qualified electors from each municipality voting at the election approves the multipurpose facilities district transaction privilege tax or other taxes or charges pursuant to subsection E of this section, the board by resolution may levy and, if levied, the department of revenue shall collect a transaction privilege tax solely within the district pursuant to this section or other taxes or charges pursuant to subsection E of this section to be used and spent for the purposes described in section 48-4204, subsection B for the multipurpose facilities. If a question fails to receive a majority approval among the voters in one municipality, but receives a majority approval among the voters in at least two other municipalities, the governing bodies of the approving municipalities, by majority vote of each governing body, may elect to form a new district and authorize the district to levy the tax solely within the boundaries of the new district subject to the conditions authorized by the voters in the election.

C. The board shall state on the ballot the purpose of the tax, the maximum rate of the tax and the maximum number of years for which the tax will be authorized. The tax shall terminate ~~upon~~ ON the expiration of the years authorized or the completion of the purpose specified in the ballot, whichever is earlier. The rate of tax shall not exceed the limits prescribed by this section. The ballot question may propose to authorize the district to levy and collect taxes and charges pursuant to subsection E of this section.

D. The board shall set the rate of the tax at not more than five ~~per cent~~ PERCENT of the transaction privilege tax rate prescribed by section 42-5010, subsection A applying on January 1, 1990 to each person engaging or continuing in the district in a business taxed under title 42, chapter 5, article 1, or in the case of persons subject to the tax imposed under section 42-5352, subsection A, at a rate of not more than ~~.1525 cents~~ $.1525 per gallon of jet fuel sold.

E. If authorized by an election held pursuant to this section, the board may:

1. Pledge all or part of the revenues from a tax under this section to secure the district's bonds or other financial obligations issued or incurred under this chapter for the multipurpose facilities.

2. Pledge all or part of the incremental increase in the municipal transaction privilege taxes generated in all or a designated geographic area of the district during a period of time before, during and after any specified national championship sporting event or international games hosted in the multipurpose facilities to secure the district's bonds or other financial obligations issued or incurred under this chapter for the construction of the multipurpose facilities.

3. Impose a surcharge pursuant to the procedures and limits of section 48-4234 in all or a designated geographic area of the district during a period of time before, during and after any specified national championship sporting event or international games hosted in the multipurpose facilities except that a car rental surcharge imposed pursuant to this paragraph shall not apply to the lease or rental of a motor vehicle as a replacement vehicle owned by the lessee for personal use. For the purposes of this paragraph, "replacement vehicle" means a vehicle loaned by a motor vehicle repair facility or dealer, or that an

individual rents temporarily, to use while a vehicle owned by the individual is not in use because of breakdown, repair, service, damage, or loss as defined in the individual's applicable private passenger automobile insurance policy.

4. Levy and, if levied, the department of revenue shall collect a tax at a rate of not to exceed one ~~per cent~~ PERCENT of the gross proceeds of sales or gross income from the business of every person engaging or continuing in the district in a business taxed under sections 42-5070 and 42-5074 during a period of time before, during and after any specified national championship sporting event or international games hosted in the multipurpose facilities to secure the district's bonds or other financial obligations issued or incurred under this chapter for the construction of the multipurpose facilities.

5. Use amounts paid to the district ~~pursuant to section 42-5031~~ and received from the multipurpose facility site the boundaries or boundary amendment of which are described in the publicity pamphlet as allowed by law, including securing the district's bonds or other financial obligations issued or incurred under this chapter for the construction of the multipurpose facilities which are owned by the district or which are publicly owned.

F. Unless the context otherwise requires, section 42-6102 governs the administration of any tax imposed under this section.

G. Each month the state treasurer shall remit to the district treasurer the net revenues collected under this section during the second preceding month. The district treasurer shall deposit the monies in the stadium district fund. Revenues from a tax under this section shall not be commingled with revenues collected pursuant to this article for any other purpose but shall be separately accounted for and used solely with respect to uses authorized in section 48-4204, subsection B.

H. In addition to other requirements prescribed by law, the board shall prepare, print and distribute publicity pamphlets concerning the proposed issue to be submitted to the voters. The board shall distribute one copy of the publicity pamphlet at least ten but not more than thirty days before the election to each household containing a registered voter in the district. The publicity pamphlet shall contain all of the following:

1. The date of the election.

2. The location of the polling places and the times the polling places will be open.

3. A true copy of the title and text of the resolution proposing the tax.

4. A summary of the purposes for which the tax is proposed to be levied and a description of the multipurpose facilities.

5. The estimated cost of the multipurpose facility to be financed.

6. An estimate of the annual amount of revenues to be raised from the proposed tax.

7. The geographic area, time period and amount of any tax, tax distribution, or surcharge proposed under subsection E of this section.

Sec. 47. Applicability

Sections 20-224.03, 41-1525, 43-1074, 43-1083, 43-1083.02, 43-1161, 43-1164.03 and 43-1170, Arizona Revised Statutes, as repealed by this act, apply to taxable years beginning from and after December 31, 2025.

Sec. 48. Retroactivity

A. Sections 42-1001, 43-105, 43-1022, 43-1041, 43-1121 and 43-1122, Arizona Revised Statutes, as amended by this act, apply retroactively to taxable years beginning from and after December 31, 2024.

B. Sections 43-1042, 43-1073.01, 43-1074.01 and 43-1168, Arizona Revised Statutes, as amended by this act, apply retroactively to taxable years beginning from and after December 31, 2025.

C. Section 42-5029, Arizona Revised Statutes, as amended by this act, section 42-5031, Arizona Revised Statutes, as repealed by this act, section 42-5061, Arizona Revised Statutes, as amended by this act, and section 42-5159, Arizona Revised Statutes, as amended by Laws 2025, chapter 135, section 2 and chapter 247, section 2 and this act, apply retroactively to taxable periods beginning from and after June 30, 2026.

Sec. 49. Saving clause

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