

Senate Engrossed

taxation omnibus

State of Arizona
Senate
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Second Regular Session
2026

SENATE BILL 1845

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)

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

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

4 20-224. Premium tax; reports

5 A. On or before March 1 of each year, each authorized domestic
6 insurer, each other insurer and each formerly authorized insurer referred
7 to in section 20-206, subsection B shall file with the director a report
8 in a form prescribed by the director showing total direct premium income
9 including policy membership and other fees and all other considerations
10 for insurance from all classes of business whether designated as a premium
11 or otherwise received by it during the preceding calendar year on account
12 of policies and contracts covering property, subjects or risks located,
13 resident or to be performed in this state, after deducting from such total
14 direct premium income applicable cancellations, returned premiums, the
15 amount of reduction in or refund of premiums allowed to industrial life
16 policyholders for payment of premiums direct to an office of the insurer
17 and all policy dividends, refunds, savings coupons and other similar
18 returns paid or credited to policyholders within this state and not
19 reapplied as premiums for new, additional or extended insurance. No
20 deduction shall be made of the cash surrender values of policies or
21 contracts. Considerations received on annuity contracts, as well as the
22 unabsorbed portion of any premium deposit, shall not be included in total
23 direct premium income, and neither shall be subject to tax. The report
24 shall separately indicate the total direct fire insurance premium income
25 received from property located in the incorporated cities and towns
26 certified by the office of the state fire marshal pursuant to section
27 9-951, subsection B, as procuring the services of a private fire company.

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

31 1. For fire insurance:

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

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

36 2. For disability insurance, 2.0 percent.

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

39 4. For other insurance:

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

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

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

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

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

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

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

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

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

37 F. Any insurer that paid or is required to pay a tax of \$50,000 or
38 more on net premiums received during the preceding calendar year, pursuant
39 to subsection B of this section and sections 20-224.01, 20-837, 20-1010,
40 20-1060 and 20-1097.07, shall file on or before the fifteenth day of each
41 month from March through August a report for that month, on a form
42 prescribed by the director, accompanied by a payment in an amount equal to
43 fifteen percent of the amount paid or required to be paid during the
44 preceding calendar year pursuant to subsection B of this section and
45 sections 20-224.01, 20-837, 20-1010, 20-1060 and 20-1097.07. The payments

1 are due and payable on or before the fifteenth day of each month and shall
2 be made to the director for deposit, pursuant to sections 35-146 and
3 35-147.

4 G. Except for the tax paid on fire insurance premiums pursuant to
5 subsections B and D of this section, an insurer may claim a premium tax
6 credit if the insurer qualifies for a credit pursuant to section
7 ~~20-224.03, 20-224.04,~~ 20-224.06 or 20-224.07.

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

13 I. On or before September 30 of each year, the director of the
14 department of insurance and financial institutions shall report to the
15 directors of the joint legislative budget committee and the governor's
16 office of strategic planning and budgeting on the amount of insurance
17 premium tax credits established by sections ~~20-224.03, 20-224.04,~~
18 20-224.05, 20-224.06 and 20-224.07 that were used during the previous
19 fiscal year.

20 J. For the purposes of:

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

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

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

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

36 20-224.01. Additional premium tax; civil penalty

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

42 B. The tax of .4312 percent of such net premiums received by the
43 director and paid by an insurer on account of premiums received for
44 insurance on certain vehicles as defined in section 28-101 shall be
45 separately specified in the insurer's report required in section 20-224

1 and is appropriated to the public safety personnel retirement system and
2 shall be transferred by the state treasurer to the board of trustees of
3 the public safety personnel retirement system for deposit in the highway
4 patrol account. If the tax received is greater than the amount necessary
5 to fund the highway patrol account, ~~beginning in the 1991-1992 fiscal year~~
6 the state treasurer shall deposit the excess in the Arizona highway patrol
7 fund established by section 41-1752 in any amount required by legislative
8 appropriation.

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

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

15 Sec. 3. Repeal

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

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

19 20-837. Tax exemption: exceptions

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

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

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

41 20-1010. Taxes

42 A. On the tax payment dates prescribed in section 20-224, each
43 prepaid dental plan organization shall pay to the director for deposit,
44 pursuant to sections 35-146 and 35-147, in a form prescribed by the

1 director a tax for transacting a prepaid dental plan in the amount of 2.0
2 percent of prepaid net charges received from members.

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

5 ~~C. A prepaid dental plan organization may claim a premium tax~~
6 ~~credit if the organization qualifies for a credit pursuant to section~~
7 ~~20-224.03.~~

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

10 20-1060. Taxes; exemption

11 A. Except as provided in subsection C of this section, on the tax
12 payment dates prescribed in section 20-224, each health care services
13 organization shall pay to the director for deposit, pursuant to sections
14 35-146 and 35-147, in a form prescribed by the director a tax for
15 transacting a health care plan in the amount of 2.0 percent of net charges
16 received from enrollees.

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

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

23 ~~D. A health care services organization may claim a premium tax~~
24 ~~credit if the organization qualifies for a credit pursuant to section~~
25 ~~20-224.03.~~

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

28 20-1097.07. Fees and taxes

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

32 ~~B. A prepaid legal insurance corporation may claim a premium tax~~
33 ~~credit if the corporation qualifies for a credit pursuant to section~~
34 ~~20-224.03.~~

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

37 28-2154.01. Special ninety day nonresident registration
38 permits; procedures

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

1 B. The department, an authorized third party or a dealer shall not:
2 1. Issue, assign or deliver a special ninety day nonresident
3 registration permit to any person unless the person does all of the
4 following:
5 (a) Obtains the special ninety day nonresident registration permit
6 pursuant to section 28-2154.
7 (b) Completes an affidavit in a form prescribed by the director
8 pursuant to section 28-2154 or completes a form prescribed by section
9 42-5009, subsection H.
10 (c) Presents to the department, authorized third party or motor
11 vehicle dealer a current valid driver license issued by another state
12 indicating an address outside of this state.
13 (d) Provides any other information reasonably and uniformly
14 required by the department of transportation pursuant to section 28-2154
15 or the department of revenue pursuant to section 42-5009, subsection H.
16 2. Issue and affix, as prescribed in subsection C of this section,
17 a special ninety day nonresident registration permit unless the permit is
18 recorded in the electronic records of the department.
19 C. A person who issues a special ninety day nonresident
20 registration permit shall affix or insert, clearly and indelibly, on the
21 face of each permit the dates of issuance and expiration and the make and
22 vehicle identification number of the vehicle. The special ninety day
23 nonresident registration permit shall not bear the name or address of the
24 person who purchased the vehicle in a position that is legible from
25 outside of the vehicle.
26 D. A dealer or authorized third party who issues a special ninety
27 day nonresident registration permit shall maintain a record, in a form
28 prescribed by the director, of all special ninety day nonresident
29 registration permits issued by the dealer or authorized third party and a
30 record of other information pertaining to the issuance of special ninety
31 day nonresident registration permits that the department of transportation
32 or the department of revenue requires.
33 E. The dealer or authorized third party shall keep each record for
34 at least three years after the date of entry of the record.
35 F. A dealer or authorized third party shall allow the director of
36 the department of transportation or the director of the department of
37 revenue full and free access to the records during regular business hours.
38 G. The electronic record is written notice of the removal of the
39 vehicle from this state for use in the purchaser's state of residence and
40 relieves the dealer or authorized third party of liability in accordance
41 with the requirements of section 42-5009.
42 H. If a purchaser registers the vehicle in this state within three
43 hundred sixty-five days after the issuance of the special ninety day
44 nonresident registration permit, the purchaser is liable in an amount
45 equal to any tax, penalty and interest that the motor vehicle dealer or

1 authorized third party would have been required to pay under title 42,
2 chapter 5 and under articles IV and VI of the model city tax code as
3 defined in section 42-6051. At the time of issuing the special ninety day
4 nonresident registration permit, a motor vehicle dealer or authorized
5 third party shall inform the purchaser in writing of the purchaser's
6 liability described in this section. Subsequent registration or use of
7 the vehicle in this state does not create a cause of action against a
8 dealer or authorized third party that complies with section 28-2154,
9 subsection A, this section and section 42-5009, subsection H.

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

14 J. Compliance with this section and section 28-2154 allows delivery
15 of the vehicle to a nonresident purchaser in this state and retains the
16 applicable deductions pursuant to section 42-5061, subsection A, paragraph
17 28 and subsection ~~V~~ U.

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

20 41-1520. International operations centers; utility relief;
21 certification; revocation; definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 L. If the information required by subsection B, paragraphs 3, 4 and
21 5 of this section and the documentation required by subsection G of this
22 section were already provided to the department of revenue for the
23 purposes of the credit provided by section 43-1164.05, the owner or
24 operator is not required to provide the information or documentation a
25 second time under this section.

26 M. For the purposes of this section:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31 (a) Solar light.

32 (b) Solar heat.

33 (c) Wind.

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

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

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

42 Sec. 10. Repeal

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

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

3 42-1001. Definitions

4 In this title, unless the context otherwise requires:

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

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

9 3. "Department" means the department of revenue.

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

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

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

16 7. "Email" means:

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

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

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

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

29 42-2003. Authorized disclosure of confidential information

30 A. Confidential information relating to:

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

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

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

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

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

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

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

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

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

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

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

31 B. Confidential information may be disclosed to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

41 (a) Regarding income tax or withholding tax.

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

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

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

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

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

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

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

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

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

15 (d) Certifying computer data centers for tax relief under section
16 41-1519.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 taxpayer information that is released by the department to the county,
2 city or town:

3 1. May be used only for internal purposes, including audits and
4 communication with taxpayers for the purposes of the notice required by
5 section 9-499.15, subsection C. If there is a legitimate business need
6 relating to enforcing laws, regulations and ordinances pursuant to section
7 9-500.39 or 11-269.17, a county, city or town tax official may redisclose
8 transaction privilege tax information relating to a vacation rental or
9 short-term rental property owner or online lodging operator from the new
10 license report and license update report, subject to the following:

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

12 (i) The transaction privilege tax license number.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

28 P. Except as provided in section 42-2002, subsection D, the
29 department of revenue shall release confidential information as requested
30 by the department of economic security pursuant to section 42-1122 or
31 46-291. Information disclosed under this subsection is limited to the
32 same type of information that the United States internal revenue service
33 is authorized to disclose under section 6103(l)(6) of the internal revenue
34 code.

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

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

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

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

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

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

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

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

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

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

33 ~~H~~. T. The department and attorney general may share the
34 information specified in subsection ~~S~~ R of this section with any of the
35 following:

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

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

43 3. A court, arbitrator, data clearinghouse or similar entity for
44 the purpose of assessing compliance with or making calculations required
45 by the master settlement agreement or agreements regarding disputes under

1 the master settlement agreement, and with counsel for the parties or
2 expert witnesses in any such proceeding, if the information otherwise
3 remains confidential.

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

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

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

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

22 ~~W.~~ W. Notwithstanding any other provision of this section, the
23 department may not disclose information provided by an online lodging
24 marketplace, as defined in section 42-5076, without the written consent of
25 the online lodging marketplace, and the information may be disclosed only
26 pursuant to subsection A, paragraphs 1 through 6, 8 and 10, subsection B,
27 paragraphs 1, 2, 7 and 8 and subsections C, D and G of this section. Such
28 information:

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

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

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

35 42-5009. Certificates establishing deductions; liability for
36 making false certificate; tax exclusion;
37 definitions

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

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

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

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

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

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

19 D. If a seller is entitled to a deduction by complying with
20 subsection A of this section, the department may require the purchaser
21 that caused the execution of the certificate to establish the accuracy and
22 completeness of the information required to be contained in the
23 certificate that would entitle the seller to the deduction. If the
24 purchaser cannot establish the accuracy and completeness of the
25 information, the purchaser is liable in an amount equal to any tax,
26 penalty and interest that the seller would have been required to pay under
27 this article if the seller had not complied with subsection A of this
28 section. Payment of the amount under this subsection exempts the
29 purchaser from liability for any tax imposed under article 4 of this
30 chapter. The amount shall be treated as tax revenues collected from the
31 seller in order to designate the distribution base for purposes of section
32 42-5029.

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

1 F. The department may prescribe a form for a certificate used to
2 establish entitlement to the deductions described in section 42-5061,
3 subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3.
4 Under rules the department may prescribe, the department may also require
5 additional information for the seller to be entitled to the deduction. If
6 a seller is entitled to the deductions described in section 42-5061,
7 subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3,
8 the department may require the purchaser who executed the certificate to
9 establish the accuracy and completeness of the information contained in
10 the certificate that would entitle the seller to the deduction. If the
11 purchaser cannot establish the accuracy and completeness of the
12 information, the purchaser is liable in an amount equal to any tax,
13 penalty and interest that the seller would have been required to pay under
14 this article. Payment of the amount under this subsection exempts the
15 purchaser from liability for any tax imposed under article 4 of this
16 chapter. The amount shall be treated as tax revenues collected from the
17 seller in order to designate the distribution base for purposes of section
18 42-5029.

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

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

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

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

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

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

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

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

28 J. To establish entitlement to the deduction described in section
29 42-5061, subsection A, paragraph 44, a public consignment auction dealer
30 as defined in section 28-4301 shall retain a copy of the certificate
31 prescribed by subsection H of this section for its records.

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

35 L. The department shall prescribe a form for a certificate to be
36 used by a person that is not subject to tax under section 42-5075 when the
37 person is engaged by a contractor that is subject to tax under section
38 42-5075 for a project that is taxable under section 42-5075. The
39 certificate permits the person purchasing tangible personal property to be
40 incorporated or fabricated by the person into any real property,
41 structure, project, development or improvement to provide documentation to
42 a retailer that the sale of tangible personal property qualifies for the
43 deduction under section 42-5061, subsection A, paragraph 27,
44 subdivision (b). A prime contractor shall obtain the certificate from the
45 department and shall provide a copy to any such person working on the

1 project. The prime contractor shall obtain a new certificate for each
2 project to which this subsection applies. For the purposes of this
3 subsection, the following apply:

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

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

11 3. If any person uses the certificate provided under this
12 subsection to purchase tangible personal property to be used in a project
13 that is not subject to tax under section 42-5075, the person is liable in
14 an amount equal to any tax, penalty and interest that the seller would
15 have been required to pay under this article if the seller had not
16 complied with subsection A of this section. Payment of the amount under
17 this section exempts the person from liability for any tax imposed under
18 article 4 of this chapter. The amount shall be sourced under section
19 42-5040, subsection A, paragraph 2.

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

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

30 1. Persons who feed their own livestock or poultry.

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

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

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

1 P. Notwithstanding any other law, an online lodging operator, as
2 defined in section 42-5076, shall be entitled to an exclusion from any
3 applicable taxes for any online lodging transaction, as defined in section
4 42-5076, facilitated by an online lodging marketplace, as defined in
5 section 42-5076, for which the online lodging operator has obtained from
6 the online lodging marketplace written notice that the online lodging
7 marketplace is registered with the department to collect applicable taxes
8 for all online lodging transactions facilitated by the online lodging
9 marketplace, and transaction history documenting tax collected by the
10 online lodging marketplace, pursuant to section 42-5005, subsection L.

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

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

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

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

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

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

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

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

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

32 42-5029. Remission and distribution of monies; withholding;
33 definition

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

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

38 2. Revenues collected pursuant to section 42-5070.

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

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

44 5. Revenues collected pursuant to section 42-5010.01 and section
45 42-5155, subsection E.

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

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

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

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

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

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

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

30 (b) The proportion that the distribution base monies collected
31 during the calendar month in each county under this article, section
32 42-5164, subsection B and section 42-5205, subsection B bear to the total
33 distribution base monies collected under this article, section 42-5164,
34 subsection B and section 42-5205, subsection B throughout ~~the~~ THIS state
35 for the calendar month.

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

38 (a) Average the following proportions:

39 (i) The proportion that the assessed valuation used to determine
40 secondary property taxes of each county, after deducting that part of the
41 assessed valuation that is exempt from taxation at the beginning of the
42 month for which the amount is to be paid, bears to the total assessed
43 valuations used to determine secondary property taxes of all the counties
44 after deducting that portion of the assessed valuations that is exempt
45 from taxation at the beginning of the month for which the amount is to be

1 paid. Property of a city or town that is not within or contiguous to the
2 municipal corporate boundaries and from which water is or may be withdrawn
3 or diverted and transported for use on other property is considered to be
4 taxable property in the county for purposes of determining assessed
5 valuation in the county under this item.

6 (ii) The proportion that the distribution base monies collected
7 during the calendar month in each county under this article, section
8 42-5164, subsection B and section 42-5205, subsection B bear to the total
9 distribution base monies collected under this article, section 42-5164,
10 subsection B and section 42-5205, subsection B throughout this state for
11 the calendar month.

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

23 4. After any distributions required by sections 42-5030,
24 42-5030.01, ~~42-5031~~, 42-5032, 42-5032.01, 42-5032.02 and 42-5032.03 and
25 after making any transfer to the water quality assurance revolving fund as
26 required by section 49-282, subsection B, credit the remainder of the
27 monies designated as distribution base to the state general fund. From
28 this amount the legislature shall annually appropriate to:

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

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

33 (c) The firearms safety and ranges fund established by section
34 17-273, \$50,000 derived from the taxes collected from the retail
35 classification pursuant to section 42-5061 for the current fiscal year.

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

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

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

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

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

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

- 39 (a) In fiscal year 2001-2002, \$15,305,900.
40 (b) In fiscal year 2002-2003, \$31,530,100.
41 (c) In fiscal year 2003-2004, \$48,727,700.
42 (d) In fiscal year 2004-2005, \$66,957,200.
43 (e) In fiscal year 2005-2006 and each fiscal year thereafter,
44 \$86,280,500.

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

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

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

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

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

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

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

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

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

36 G. Notwithstanding subsection D of this section, if a court of
37 competent jurisdiction finally determines that tax monies distributed
38 under this section were illegally collected under this article or articles
39 5 and 8 of this chapter and orders the monies to be refunded to the
40 taxpayer, the department shall compute the amount of such monies that was
41 distributed to each city, town and county under this section. Each
42 city's, town's and county's proportionate share of the costs shall be
43 based on the amount of the original tax payment each municipality and
44 county received. Each month the state treasurer shall reduce the amount
45 otherwise distributable to the city, town and county under this section by

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

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

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

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

44 K. On notice from the auditor general pursuant to section 9-626,
45 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.

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

4 4. Sales of tangible personal property by any nonprofit
5 organization organized and operated exclusively for charitable purposes
6 and recognized by the United States internal revenue service under section
7 501(c)(3) of the internal revenue code.

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

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

13 7. The sale of stocks and bonds.

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

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

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

22 11. Prescription eyeglasses or contact lenses.

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

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

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

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

35 (b) The vehicle, trailer or semitrailer has a gross vehicle weight
36 rating of more than ten thousand pounds, is used or maintained to
37 transport property in the furtherance of interstate commerce and otherwise
38 meets the definition of commercial motor vehicle as defined in section
39 28-5201.

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

42 16. Items purchased with United States department of agriculture
43 coupons issued under the supplemental nutrition assistance program
44 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
45 7 United States Code sections 2011 through 2036b) by the United States

1 department of agriculture food and nutrition service or food instruments
2 issued under section 17 of the child nutrition act (P.L. 95-627;
3 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States
4 Code section 1786).

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

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

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

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

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

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

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

38 (ii) Prepaid calling cards or prepaid authorization numbers for
39 telecommunications services made taxable by subsection ~~P~~ 0 of this
40 section.

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

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

4 22. Motor vehicle fuel and use fuel that are subject to a tax
5 imposed under title 28, chapter 16, article 1, sales of use fuel to a
6 holder of a valid single trip use fuel tax permit issued under section
7 28-5739, sales of aviation fuel that are subject to the tax imposed under
8 section 28-8344 and sales of jet fuel that are subject to the tax imposed
9 under article 8 of this chapter.

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

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

17 25. Tangible personal property sold to:

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

19 (b) A qualifying health care organization as defined in section
20 42-5001 if the tangible personal property is used by the organization
21 solely to provide health and medical related educational and charitable
22 services.

23 (c) A qualifying health care organization as defined in section
24 42-5001 if the organization is dedicated to providing educational,
25 therapeutic, rehabilitative and family medical education training for
26 blind and visually impaired children and children with multiple
27 disabilities from the time of birth to age twenty-one.

28 (d) A qualifying community health center as defined in section
29 42-5001.

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

33 (f) For taxable periods beginning from and after June 30, 2001, a
34 nonprofit charitable organization that has qualified under section
35 501(c)(3) of the internal revenue code and that provides residential
36 apartment housing for low-income persons over sixty-two years of age in a
37 facility that qualifies for a federal housing subsidy, if the tangible
38 personal property is used by the organization solely to provide
39 residential apartment housing for low-income persons over sixty-two years
40 of age in a facility that qualifies for a federal housing subsidy.

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

43 (h) Any person representing or working on behalf of another person
44 described in subdivisions (a) through (g) of this paragraph if the

1 tangible personal property is incorporated or fabricated into a project
2 described in section 42-5075, subsection P.

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

5 27. Tangible personal property sold to:

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

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

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

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

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

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

28 29. Tangible personal property purchased in this state by a
29 nonprofit charitable organization that has qualified under section
30 501(c)(3) of the United States internal revenue code and that engages in
31 and uses such property exclusively in programs for persons with mental or
32 physical disabilities if the programs are exclusively for training, job
33 placement, rehabilitation or testing.

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

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

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

8 32. Sales of tangible personal property by a nonprofit organization
9 that is exempt from taxation under section 501(c)(3), 501(c)(4),
10 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the
11 organization sponsors or operates a rodeo featuring primarily farm and
12 ranch animals and no part of the organization's net earnings inures to the
13 benefit of any private shareholder or individual.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

39 42. Sales of:

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

42 (b) Livestock and poultry feed, salts, vitamins and other additives
43 for livestock or poultry consumption that are sold to persons for use or
44 consumption by their own livestock or poultry, for use or consumption in
45 the businesses of farming, ranching and producing or feeding livestock,

1 poultry, or livestock or poultry products or for use or consumption in
2 noncommercial boarding of livestock. For the purposes of this paragraph,
3 "poultry" includes ratites.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

27 (a) A person:

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

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

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

41 (iv) Operating an aircraft to transport persons in any manner for
42 compensation or hire, or for use in a fractional ownership program that
43 meets the requirements of federal aviation administration regulations
44 (14 Code of Federal Regulations part 91, subpart K), including as an air
45 carrier, a foreign air carrier or a commercial operator or under a

1 restricted category, within the meaning of 14 Code of Federal Regulations,
2 regardless of whether the operation or aircraft is regulated or certified
3 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
4 of Federal Regulations.

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

10 (b) Any foreign government.

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

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

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

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

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

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

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

44 (a) "Off-highway vehicles" means off-highway vehicles as defined in
45 section 28-1171 that are modified at the time of sale to function as a

1 tractor or to tow tractor-drawn implements and that are not equipped with
2 a modified exhaust system to increase horsepower or speed or an engine
3 that is more than one thousand cubic centimeters or that have a maximum
4 speed of fifty miles per hour or less.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4 (c) Any machinery or equipment purchased after the television
5 station has ceased analog broadcasting, or purchased after November 1,
6 2009, whichever occurs first.

7 22. Qualifying equipment that is purchased from and after June 30,
8 2004 through December 31, 2028 by a qualified business under section
9 41-1516 for harvesting or processing qualifying forest products removed
10 from qualifying projects as defined in section 41-1516. To qualify for
11 this deduction, the qualified business at the time of purchase must
12 present its certification approved by the department.

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

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

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

27 2. Janitorial equipment and hand tools.

28 3. Office equipment, furniture and supplies.

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

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

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

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

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

41 D. In addition to the deductions from the tax base prescribed by
42 subsection A of this section, there shall be deducted from the tax base
43 the gross proceeds of sales or gross income derived from sales of
44 machinery, equipment, materials and other tangible personal property used
45 directly and predominantly to construct a qualified environmental

1 technology manufacturing, producing or processing facility as described in
2 section 41-1514.02. This subsection applies for ten full consecutive
3 calendar or fiscal years after the start of initial construction.

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

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

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

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

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

32 2. Businesses classified under the:

- 33 (a) Transporting classification.
- 34 (b) Utilities classification.
- 35 (c) Telecommunications classification.
- 36 (d) Pipeline classification.
- 37 (e) Private car line classification.
- 38 (f) Publication classification.
- 39 (g) Job printing classification.
- 40 (h) Prime contracting classification.
- 41 (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

~~0.~~ 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.

~~0.~~ 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

1 from the seller to designate the distribution base pursuant to section
2 42-5029.

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

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

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

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

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

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

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

41 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

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

3 42-5071. Personal property rental classification; definitions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10 1. Reimbursements by the lessee to the lessor of a motor vehicle
11 for payments by the lessor of the applicable fees and taxes imposed by
12 sections 28-2003, 28-2352, 28-2402, 28-2481 and 28-5801, title 28, chapter
13 15, article 2 and article IX, section 11, Constitution of Arizona, to the
14 extent such amounts are separately identified as such fees and taxes and
15 are billed to the lessee.

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

19 (a) Section 42-5061, subsection A, paragraph 8, 9, 12, 13, 25, 29,
20 49 or 53.

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

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

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

24 3. Motor vehicle fuel and use fuel that are subject to a tax
25 imposed under title 28, chapter 16, article 1, sales of use fuel to a
26 holder of a valid single trip use fuel tax permit issued under section
27 28-5739 and sales of aviation fuel that are subject to the tax imposed
28 under section 28-8344.

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

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

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

37 D. In computing the tax base, the gross proceeds of sales or gross
38 income from the lease or rental of a motor vehicle does not include any
39 amount attributable to the car rental surcharge under section 5-839,
40 28-5810 or 48-4234.

41 E. Until December 31, 1988, leasing or renting animals for
42 recreational purposes is exempt from the tax imposed by this section.
43 Beginning January 1, 1989, the gross proceeds or gross income from leasing
44 or renting animals for recreational purposes is subject to taxation under
45 this section. Tax liabilities, penalties and interest paid for taxable

1 periods before January 1, 1989 shall not be refunded unless the taxpayer
2 requesting the refund provides proof satisfactory to the department that
3 the monies paid as taxes will be returned to the customer.

4 F. The tax base of the personal property rental classification does
5 not include the gross proceeds or gross income received by a shared
6 vehicle owner from a peer-to-peer car sharing program pursuant to section
7 42-5009, subsection R.

8 G. For the purposes of this section:

9 1. "Cable operator" has the same meaning prescribed in section
10 9-505 and includes a video service provider.

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

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

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

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

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

23 42-5159. Exemptions

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

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

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

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

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

44 5. Motor vehicle fuel and use fuel, the sales, distribution or use
45 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.

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

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

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

7 13. Tangible personal property purchased by:

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

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

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

18 (d) A qualifying health care organization, as defined in section
19 42-5001, if the tangible personal property is used by the organization
20 solely to provide health and medical related educational and charitable
21 services.

22 (e) A qualifying health care organization as defined in section
23 42-5001 if the organization is dedicated to providing educational,
24 therapeutic, rehabilitative and family medical education training for
25 blind and visually impaired children and children with multiple
26 disabilities from the time of birth to age twenty-one.

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

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

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

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

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

43 (h) A person that is not subject to tax under section 42-5075 and
44 that has been provided a copy of a certificate described in section
45 42-5009, subsection L, if the property purchased is incorporated or

1 fabricated by the person into the real property, structure, project,
2 development or improvement described in the certificate.

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

7 (j) A qualifying community health center as defined in section
8 42-5001.

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

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

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

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

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

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

37 15. Tangible personal property sold by:

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

41 (b) A nonprofit organization that is exempt from taxation under
42 section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if
43 the organization is associated with a major league baseball team or a
44 national touring professional golfing association and no part of the
45 organization's net earnings inures to the benefit of any private

1 shareholder or individual. This subdivision does not apply to an
2 organization that is owned, managed or controlled, in whole or in part, by
3 a major league baseball team, or its owners, officers, employees or
4 agents, or by a major league baseball association or professional golfing
5 association, or its owners, officers, employees or agents, unless the
6 organization conducted or operated exhibition events in this state before
7 January 1, 2018 that were exempt from transaction privilege tax under
8 section 42-5073.

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

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

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

23 18. Prescription eyeglasses and contact lenses.

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

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

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

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

35 23. Items purchased with United States department of agriculture
36 coupons issued under the supplemental nutrition assistance program
37 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
38 7 United States Code sections 2011 through 2036b) by the United States
39 department of agriculture food and nutrition service or food instruments
40 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
41 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
42 section 1786).

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

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

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

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

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

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

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

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

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

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

33 (b) Public educational institutions.

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

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

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

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

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

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

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

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

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

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

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

1 incorporating such title passing clauses in a government contract into the
2 subcontract.

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

10 41. Wireless telecommunications equipment that is held for sale or
11 transfer to a customer as an inducement to enter into or continue a
12 contract for telecommunications services that are taxable under section
13 42-5064.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 55. Tangible personal property incorporated or fabricated into a
44 project described in section 42-5075, subsection ~~Ⓟ~~ P, that is located
45 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

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

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

10 3. Tangible personal property sold to persons engaged in business
11 classified under the telecommunications classification under section
12 42-5064, including a person representing or working on behalf of such a
13 person in a manner described in section 42-5075, subsection ~~⊕~~ P, and
14 consisting of central office switching equipment, switchboards, private
15 branch exchange equipment, microwave radio equipment and carrier equipment
16 including optical fiber, coaxial cable and other transmission media that
17 are components of carrier systems.

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

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

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

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

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

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

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

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

3 (a) A person:

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

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

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

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

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

31 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

30 22. Qualifying equipment that is purchased from and after June 30,
31 2004 through December 31, 2028 by a qualified business under section
32 41-1516 for harvesting or processing qualifying forest products removed
33 from qualifying projects as defined in section 41-1516. To qualify for
34 this exemption, the qualified business must obtain and present its
35 certification from the Arizona commerce authority at the time of purchase.

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

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

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

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

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

11 2. Janitorial equipment and hand tools.

12 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

44 (v) A business that uses at least fifty-one percent of the value of
45 its capitalized assets in this state, as reflected on the business's books

1 and records, for manufacturing or smelting and business activities
2 directly related to manufacturing or smelting.

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

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

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

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

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

19 2. "Aircraft" includes:

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

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

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

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

33 Sec. 19. Repeal

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

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

38 42-6009. Online lodging; definitions

39 A. Except as provided by this section, a city, town or other taxing
40 jurisdiction may not levy a transaction privilege, sales, use, franchise
41 or other similar tax or fee, however denominated, on the business of
42 operating an online lodging marketplace or, in the case of an online
43 lodging marketplace that is licensed pursuant to section 42-5005,
44 subsection L, on any online lodging transaction facilitated by the online
45 lodging marketplace or on any online lodging operator with respect to any

1 online lodging transaction for which it has received documentation that
2 the online lodging marketplace has remitted or will remit the applicable
3 tax to the department pursuant to section 42-5014, subsection E.

4 B. In the case of an online lodging marketplace that is licensed
5 pursuant to section 42-5005, subsection L, a city, town or other taxing
6 jurisdiction may levy a transaction privilege, sales, use, franchise or
7 other similar tax or fee on an online lodging marketplace from any
8 activity subject to tax under the model city tax code, with the tax base
9 for an online **LODGING** marketplace being limited pursuant to section 42-
10 5076, subject to the following conditions:

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

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

17 (b) The city, town or other taxing jurisdiction tax may apply to
18 online lodging transactions involving rentals of lodging accommodations in
19 the city, town or other taxing jurisdiction for more than twenty-nine
20 consecutive days. With respect to any tax on rentals of lodging
21 accommodations for more than twenty-nine consecutive days, in the case of
22 an online lodging marketplace that has registered pursuant to section
23 42-5005, subsection L, the city, town or other taxing jurisdiction tax
24 must uniformly apply to all lodging accommodations in the city, town or
25 other taxing jurisdiction for thirty consecutive days or more, and the tax
26 base for the tax must be limited exclusively to online lodging
27 transactions facilitated by an online lodging marketplace for rentals of
28 lodging accommodations for thirty consecutive days or more and located in
29 the applicable city, town or other taxing jurisdiction.

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

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

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

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

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

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

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

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

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

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

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

13 43-105. Internal revenue code; definition; application

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

21 ~~A.~~ B. For the purposes of computing income tax pursuant to this
22 title, for taxable years beginning from and after December 31, 2024
23 THROUGH DECEMBER 31, 2025, "internal revenue code" means the United States
24 internal revenue code of 1986, as amended, in effect on January 1, 2025,
25 including those provisions that became effective during 2024 with the
26 specific adoption of all retroactive effective dates, ~~but excluding any~~
27 ~~changes to the code enacted after January 1, 2025~~ AND INCLUDING THOSE
28 PROVISIONS OF PUBLIC LAW 119-21 THAT ARE RETROACTIVELY EFFECTIVE DURING
29 TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024 THROUGH DECEMBER
30 31, 2025.

31 ~~B.~~ C. For the purposes of computing income tax pursuant to this
32 title, for taxable years beginning from and after December 31, 2023
33 through December 31, 2024, "internal revenue code" means the United States
34 internal revenue code of 1986, as amended, in effect on January 1, 2024,
35 including those provisions that became effective during 2023 with the
36 specific adoption of all retroactive effective dates, and including those
37 provisions OF PUBLIC LAW 119-21 that are retroactively effective during
38 taxable years beginning from and after December 31, 2023 through December
39 31, 2024.

40 ~~C.~~ D. For the purposes of computing income tax pursuant to this
41 title, for taxable years beginning from and after December 31,
42 2022 through December 31, 2023, "internal revenue code" means the United
43 States internal revenue code of 1986, as amended, in effect on January 1,
44 2023, including those provisions that became effective during 2022 with
45 the specific adoption of all retroactive effective dates, and including

1 those provisions OF PUBLIC LAW 119-21 that are retroactively effective
2 during taxable years beginning from and after December 31, 2022 through
3 December 31, 2023.

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

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

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

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

1 relief, and economic security act (P.L. 116-136) and the consolidated
2 appropriations act, 2021 (P.L. 116-260) that are retroactively effective
3 during taxable years beginning from and after December 31, 2018 through
4 December 31, 2019.

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

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

32 ~~J.~~ K. For the purposes of computing income tax pursuant to this
33 title, for taxable years beginning from and after December 31, 2015
34 through December 31, 2016, "internal revenue code" means the United States
35 internal revenue code of 1986, as amended, in effect on January 1, 2016,
36 including those provisions that became effective during 2015 with the
37 specific adoption of all federal retroactive effective dates, and
38 including those provisions of the United States appreciation for olympians
39 and paralympians act of 2016 (P.L. 114-239), the tax cuts and jobs act
40 (P.L. 115-97), the consolidated appropriations act, 2018 (P.L. 115-141),
41 the further consolidated appropriations act, 2020 (P.L. 116-94) and the
42 coronavirus aid, relief, and economic security act (P.L. 116-136) that are
43 retroactively effective during taxable years beginning from and after
44 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.

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

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

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

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

14 43-323. Place and form of filing returns

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

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

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

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

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

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

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

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

35 2. Are residents for the full taxable year.

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

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

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

41 6. Elect to claim the optional standard deduction under section
42 43-1041, subsection A, but not the increased amount for charitable
43 deductions under section 43-1041, subsection ~~F~~ H.

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

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

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

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

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

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

- 30 1. The taxpayer has no computer.
31 2. The taxpayer has no internet access.
32 3. Any other circumstance considered to be worthy by the director
33 exists.

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

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

40 43-1022. Subtractions from Arizona gross income

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

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

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

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

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

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

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

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

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

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

30 8. The portion of any wages or salaries paid or incurred by the
31 taxpayer for the taxable year that is equal to the amount of the federal
32 work opportunity credit, the empowerment zone employment credit, the
33 credit for employer paid social security taxes on employee cash tips and
34 the Indian employment credit that the taxpayer received under sections
35 45A, 45B, 51(a) and 1396 of the internal revenue code.

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

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

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

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

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

16 (b) In taxable years beginning from and after December 31, 2025,
17 \$5,000 for a single individual or head of household.

18 (c) For taxable years beginning from and after December 31, 2025,
19 \$10,000 for a married couple filing a joint return. In the case of a
20 husband and wife who file separate returns, the subtraction may be taken
21 by either taxpayer or may be divided between them, but the total
22 subtractions allowed both husband and wife may not exceed \$10,000.

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

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

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

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

38 17. For property placed in service:

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

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

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

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

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

29 18. With respect to property that is sold or otherwise disposed of
30 during the taxable year by a taxpayer that complied with section 43-1021,
31 paragraph 11 with respect to that property, the amount of depreciation
32 that has been allowed pursuant to section 167(a) of the internal revenue
33 code to the extent that the amount has not already reduced Arizona taxable
34 income in the current or prior taxable years.

35 19. The amount contributed during the taxable year to college
36 savings plans established pursuant to section 529 of the internal revenue
37 code on behalf of the designated beneficiary to the extent that the
38 contributions were not deducted in computing federal adjusted gross
39 income. The amount subtracted may not exceed:

40 (a) \$2,000 per beneficiary for a single individual or a head of
41 household.

42 (b) \$4,000 per beneficiary for a married couple filing a joint
43 return. In the case of a husband and wife who file separate returns, the
44 subtraction may be taken by either taxpayer or may be divided between

1 them, but the total subtractions allowed both husband and wife may not
2 exceed \$4,000 per beneficiary.

3 20. The portion of the net operating loss carryforward that would
4 have been allowed as a deduction in the current year pursuant to section
5 172 of the internal revenue code if the election described in section
6 172(b)(1)(H) of the internal revenue code had not been made in the year of
7 the loss that exceeds the actual net operating loss carryforward that was
8 deducted in arriving at federal adjusted gross income. This subtraction
9 only applies to taxpayers who made an election under section 172(b)(1)(H)
10 of the internal revenue code as amended by section 1211 of the American
11 recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by
12 section 13 of the worker, homeownership, and business assistance act of
13 2009 (P.L. 111-92).

14 21. For taxable years beginning from and after December 31, 2013,
15 the amount of any net capital gain included in federal adjusted gross
16 income for the taxable year derived from investment in a qualified small
17 business as determined by the Arizona commerce authority pursuant to
18 section 41-1518.

19 22. An amount of any net long-term capital gain included in federal
20 adjusted gross income for the taxable year that is derived from an
21 investment in an asset acquired after December 31, 2011, as follows:

22 (a) For taxable years beginning from and after December 31, 2012
23 through December 31, 2013, ten percent of the net long-term capital gain
24 included in federal adjusted gross income.

25 (b) For taxable years beginning from and after December 31, 2013
26 through December 31, 2014, twenty percent of the net long-term capital
27 gain included in federal adjusted gross income.

28 (c) For taxable years beginning from and after December 31, 2014,
29 twenty-five percent of the net long-term capital gain included in federal
30 adjusted gross income. For the purposes of this paragraph, a transferee
31 that receives an asset by gift or at the death of a transferor is
32 considered to have acquired the asset when the asset was acquired by the
33 transferor. If the date an asset is acquired cannot be verified, a
34 subtraction under this paragraph is not allowed.

35 23. If an individual is not claiming itemized deductions pursuant
36 to section 43-1042, the amount of premium costs for long-term care
37 insurance, as defined in section 20-1691.

38 24. The amount of eligible access expenditures paid or incurred
39 during the taxable year to comply with the requirements of the Americans
40 with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9,
41 article 8 as provided by section 43-1024.

42 25. For taxable years beginning from and after December 31, 2017,
43 the amount of any net capital gain included in Arizona gross income for
44 the taxable year that is derived from the exchange of one kind of legal

1 tender for another kind of legal tender. For the purposes of this
2 paragraph:

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

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

7 26. Benefits, annuities and pensions received as retired or
8 retainer pay of the uniformed services of the United States in amounts as
9 follows:

10 (a) For taxable years through December 31, 2018, an amount totaling
11 not more than \$2,500.

12 (b) For taxable years beginning from and after December 31, 2018
13 through December 31, 2020, an amount totaling not more than \$3,500.

14 (c) For taxable years beginning from and after December 31, 2020,
15 the full amount received.

16 27. For taxable years beginning from and after December 31, 2020,
17 the amount contributed during the taxable year to an achieving a better
18 life experience account established pursuant to section 529A of the
19 internal revenue code on behalf of the designated beneficiary to the
20 extent that the contributions were not deducted in computing federal
21 adjusted gross income. The amount subtracted may not exceed:

22 (a) \$2,000 per beneficiary for a single individual or a head of
23 household.

24 (b) \$4,000 per beneficiary for a married couple filing a joint
25 return. In the case of a husband and wife who file separate returns, the
26 subtraction may be taken by either taxpayer or may be divided between
27 them, but the total subtractions allowed both husband and wife may not
28 exceed \$4,000 per beneficiary.

29 28. For taxable years beginning from and after December 31, 2020,
30 Arizona small business gross income but only if an individual taxpayer has
31 elected to separately report and pay tax on the taxpayer's Arizona small
32 business adjusted gross income on the Arizona small business income tax
33 return.

34 29. To the extent not already excluded from Arizona gross income
35 under the internal revenue code, the value of virtual currency and
36 non-fungible tokens the taxpayer received pursuant to an airdrop at the
37 time of the airdrop. This paragraph may not be interpreted as providing a
38 subtraction for any appreciation in value that occurs from holding the
39 virtual currency after the initial receipt of the airdrop. For the
40 purposes of this paragraph:

41 (a) "Airdrop" means the receipt of virtual currency through a means
42 of distribution of virtual currency to the distributed ledger addresses of
43 multiple taxpayers.

44 (b) "Non-fungible token" has the same meaning prescribed in section
45 43-1028.

1 (c) "Virtual currency" has the same meaning prescribed in section
2 43-1028.

3 30. The amount allowed as a subtraction by section 43-1028 for gas
4 fees not already included in the taxpayer's virtual currency or
5 non-fungible token basis.

6 31. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024,
7 TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE
8 INTERNAL REVENUE CODE, THE AMOUNT OF QUALIFIED TIPS RECEIVED DURING THE
9 TAXABLE YEAR THAT IS DEDUCTED UNDER SECTION 224 OF THE INTERNAL REVENUE
10 CODE.

11 32. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024,
12 TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE
13 INTERNAL REVENUE CODE, THE AMOUNT OF QUALIFIED OVERTIME COMPENSATION
14 RECEIVED DURING THE TAXABLE YEAR THAT IS DEDUCTED UNDER SECTION 225 OF THE
15 INTERNAL REVENUE CODE.

16 33. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025,
17 TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE
18 INTERNAL REVENUE CODE, THE AMOUNT OF A DISTRIBUTION FROM AN ACCOUNT
19 ESTABLISHED PURSUANT TO SECTION 530A OF THE INTERNAL REVENUE CODE.

20 34. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025,
21 TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA GROSS INCOME UNDER THE
22 INTERNAL REVENUE CODE, THE AMOUNT OF CHILD AND DEPENDENT CARE EXPENSES FOR
23 A QUALIFYING INDIVIDUAL UNDER SECTION 21 OF THE INTERNAL REVENUE CODE PAID
24 OR INCURRED BY THE TAXPAYER FOR THE TAXABLE YEAR THAT EXCEEDS THE AMOUNT
25 OF THE FEDERAL CREDIT THAT THE TAXPAYER RECEIVED UNDER SECTION 21 OF THE
26 INTERNAL REVENUE CODE.

27 35. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025,
28 THE AMOUNT AUTHORIZED BY SECTION 43-1030 FOR THE TAXABLE YEAR RELATING TO
29 DISTRIBUTIONS FROM A PENSION OR RETIREMENT ACCOUNT.

30 36. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025,
31 THE AMOUNT TOTALING NOT MORE THAN \$6,000 THAT IS CONTRIBUTED DURING THE
32 TAXABLE YEAR TO A RETIREMENT ACCOUNT TO THE EXTENT THAT THE CONTRIBUTIONS
33 WERE NOT DEDUCTED IN COMPUTING FEDERAL ADJUSTED GROSS INCOME. THE TOTAL
34 AMOUNT SUBTRACTED UNDER THIS PARAGRAPH AND SECTION 43-1030 MAY NOT EXCEED
35 \$6,000 FOR A TAXPAYER WHO IS A SINGLE PERSON, A MARRIED PERSON FILING
36 SEPARATELY OR A HEAD OF HOUSEHOLD OR \$12,000 FOR A MARRIED COUPLE FILING A
37 JOINT RETURN. FOR THE PURPOSES OF THIS PARAGRAPH, "RETIREMENT ACCOUNT"
38 MEANS A ROTH INDIVIDUAL RETIREMENT ACCOUNT UNDER SECTION 408A OF THE
39 INTERNAL REVENUE CODE.

40 37. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2024
41 THROUGH DECEMBER 31, 2025, TO THE EXTENT NOT ALREADY EXCLUDED FROM ARIZONA
42 GROSS INCOME UNDER THE INTERNAL REVENUE CODE, THE AMOUNT DEDUCTED FOR A
43 QUALIFIED INDIVIDUAL UNDER SECTION 151(d)(5)(C) OF THE INTERNAL REVENUE
44 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.

1 (b) AN INDIVIDUAL RETIREMENT ACCOUNT UNDER SECTION 408 OF THE
2 INTERNAL REVENUE CODE, INCLUDING A SIMPLIFIED EMPLOYEE PENSION AS DEFINED
3 IN SECTION 408(k) OF THE INTERNAL REVENUE CODE AND A SIMPLE RETIREMENT
4 ACCOUNT AS DEFINED IN SECTION 408(p) OF THE INTERNAL REVENUE CODE.

5 Sec. 27. Section 43-1041, Arizona Revised Statutes, is amended to
6 read:

7 43-1041. Optional standard deduction

8 A. A taxpayer may elect to take a standard deduction ~~as follows:~~

9 ~~1. In the case of a single person or a married person filing~~
10 ~~separately, the standard deduction is \$12,200, subject to subsection H of~~
11 ~~this section.~~

12 ~~2. In the case of a single person who is a head of a household, the~~
13 ~~standard deduction is \$18,350, subject to subsection H of this section.~~

14 ~~3. In the case of a married couple filing a joint return, the~~
15 ~~standard deduction is \$24,400, subject to subsection H of this section.~~

16 THE AMOUNT OF THE STANDARD DEDUCTION IS THE AMOUNT OF THE FEDERAL BASIC
17 STANDARD DEDUCTION DETERMINED PURSUANT TO SECTION 63 OF THE INTERNAL
18 REVENUE CODE FOR THE TAXPAYER'S FILING STATUS.

19 B. The standard deduction provided for in subsection A of this
20 section is in lieu of all itemized deductions allowed by section 43-1042,
21 which are to be subtracted from Arizona adjusted gross income in computing
22 taxable income.

23 C. The standard deduction is allowed if the taxpayer so
24 elects. The election is made by the taxpayer claiming on the tax return
25 the amount provided for in this section in lieu of the itemized deductions
26 allowed under section 43-1042. Electing to file a short form return or a
27 simplified return that does not allow itemized deductions to be claimed is
28 considered to be an election to claim the standard deduction.

29 D. In the case of a husband and wife, the standard deduction
30 provided for in subsection A of this section is not allowed to either if
31 the taxable income of one of the spouses is determined without regard to
32 the standard deduction.

33 E. The standard deduction provided for by subsection A of this
34 section is not allowed in the case of a taxable year of less than twelve
35 months on account of a change in the accounting period.

36 F. Except as provided in subsection G of this section, a change of
37 an election to take, or not to take, the standard deduction for any
38 taxable year may be made after the filing of the return for that year.

39 G. A taxpayer is not allowed to change an election to take, or not
40 to take, the standard deduction if:

41 1. The spouse of the taxpayer filed a separate return for any
42 taxable year corresponding, for the purposes of subsection D of this
43 section, to the taxable year of the taxpayer unless both of the following
44 apply:

1 (a) The spouse makes a change of election with respect to the
2 standard deduction for the taxable year covered in the separate return
3 consistent with the change of election sought by the taxpayer.

4 (b) The taxpayer and spouse consent in writing to the assessment,
5 within such a period as may be agreed on with the department, of any
6 deficiency, to the extent attributable to the change of election, even
7 though at the time of filing the consent the assessment of the deficiency
8 would otherwise be prevented by the operation of any law or rule of law.

9 2. The tax liability of the taxpayer or the taxpayer's spouse for
10 the taxable year has been compromised.

11 ~~H. For each taxable year beginning from and after December 31,~~
12 ~~2019, the department shall adjust the dollar amounts prescribed by~~
13 ~~subsection A, paragraphs 1, 2 and 3 of this section for inflation in the~~
14 ~~same manner in which the federal basic standard deduction is adjusted for~~
15 ~~inflation pursuant to section 63 of the internal revenue code.~~

16 ~~I. For taxable years beginning from and after December 31, 2018,~~

17 H. The standard deduction allowed under subsection A of this
18 section shall be increased AS FOLLOWS:

19 1. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2018
20 THROUGH DECEMBER 31, 2025, by the amount equal to twenty-five percent of
21 the total amount of a taxpayer's charitable deductions that would have
22 been allowed if the taxpayer elected to claim itemized deductions under
23 section 43-1042 rather than elect the standard deduction. For taxable
24 years beginning from and after December 31, 2021 THROUGH DECEMBER 31,
25 2025, the department shall adjust the percentage prescribed in this
26 ~~subsection~~ PARAGRAPH according to the average annual change in the
27 metropolitan Phoenix consumer price index published by the United States
28 department of labor, bureau of labor statistics, except that the adjusted
29 percentage may not exceed one hundred percent. The revised percentage
30 shall be raised to the nearest whole percent and may not be revised below
31 the amounts prescribed in the prior taxable year.

32 2. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, BY
33 AN AMOUNT EQUAL TO THE TOTAL AMOUNT OF A TAXPAYER'S CHARITABLE
34 CONTRIBUTIONS AS DEFINED IN SECTION 170(c) OF THE INTERNAL REVENUE
35 CODE. THE INCREASE ALLOWED BY THIS PARAGRAPH MAY NOT EXCEED:

36 (a) IN THE CASE OF A SINGLE PERSON OR A MARRIED PERSON FILING
37 SEPARATELY, \$1,000.

38 (b) IN THE CASE OF A MARRIED COUPLE FILING A JOINT RETURN,
39 \$2,000.

40 Sec. 28. Section 43-1042, Arizona Revised Statutes, is amended to
41 read:

42 ~~43-1042.~~ Itemized deductions

43 A. Except as provided by subsections B, ~~and~~ C AND D of this
44 section, at the election of the taxpayer, and in lieu of the standard
45 deduction allowed by section 43-1041, in computing taxable income the

1 taxpayer may take the amount of itemized deductions allowable for the
2 taxable year pursuant to subtitle A, chapter 1, subchapter B, parts VI and
3 VII, but subject to the ~~limitations~~ LIMITS prescribed by sections 67, 68
4 and 274 of the internal revenue code.

5 B. In lieu of the amount of the federal itemized deduction for
6 expenses paid for medical care allowed under section 213 of the internal
7 revenue code, the taxpayer may deduct the full amount of such expenses.

8 C. A taxpayer shall not claim both a deduction provided by this
9 section and a credit allowed by this title with respect to the same
10 charitable contributions. This subsection applies to any contribution for
11 which a credit is allowed by this title even if the contribution is
12 treated as a payment of state income tax.

13 D. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025, IN
14 LIEU OF THE AMOUNT OF THE FEDERAL ITEMIZED DEDUCTION FOR STATE AND LOCAL
15 TAXES ALLOWED UNDER SECTION 164(b)(7) OF THE INTERNAL REVENUE CODE, THE
16 TAXPAYER MAY DEDUCT UP TO \$10,000 OF THAT AMOUNT FOR SUCH STATE AND LOCAL
17 TAXES.

18 ~~D.~~ E. The taxpayer may add any interest expense paid by the
19 taxpayer for the taxable year that is equal to the amount of federal
20 credit for interest on certain home mortgages allowed by section 25 of the
21 internal revenue code.

22 Sec. 29. Section 43-1073.01, Arizona Revised Statutes, is amended
23 to read:

24 43-1073.01. Dependent tax credit

25 A. A credit is allowed against the taxes imposed by this title for
26 a taxable year for each dependent of a taxpayer as provided by this
27 section.

28 B. For taxpayers whose federal adjusted gross income is less than
29 \$200,000 for a taxpayer who is a single person, a married person filing
30 separately or a head of household or is less than \$400,000 for a married
31 couple filing a joint return, the amount of the credit is:

32 1. ~~\$100~~ \$125 for each dependent who is under seventeen years of age
33 at the end of the taxable year.

34 2. \$25 for each dependent who is at least seventeen years of age at
35 the end of the taxable year.

36 C. For taxpayers whose federal adjusted gross income is \$200,000 or
37 more for a taxpayer who is a single person, a married person filing
38 separately or a head of household or is \$400,000 or more for a married
39 couple filing a joint return, the amount of the credit is:

40 1. ~~\$100~~ \$125 minus five percent for each \$1,000, or fraction
41 thereof, by which the taxpayer's federal adjusted gross income exceeds the
42 applicable threshold provided in this subsection for each dependent who is
43 under seventeen years of age at the end of the taxable year.

44 2. \$25 minus five percent for each \$1,000, or fraction thereof, by
45 which the taxpayer's federal adjusted gross income exceeds the applicable

1 threshold provided in this subsection for each dependent who is at least
2 seventeen years of age at the end of the taxable year.

3 D. In the case of a nonresident or part-year resident taxpayer, the
4 credit allowed under this section is allowed in the percentage that the
5 taxpayer's Arizona gross income is of the federal adjusted gross income.

6 Sec. 30. Repeal

7 Section 43-1074, Arizona Revised Statutes, is repealed.

8 Sec. 31. Section 43-1074.01, Arizona Revised Statutes, is amended
9 to read:

10 43-1074.01. Credit for increased research activities

11 A. A credit is allowed against the taxes imposed by this title in
12 an amount determined pursuant to section 41 of the internal revenue code,
13 except that:

14 1. The amount of the credit is based on the excess, if any, of the
15 qualified research expenses for the taxable year over the base amount as
16 defined in section 41(c) of the internal revenue code and is computed as
17 follows:

18 (a) If the excess is \$2,500,000 or less:

19 (i) For taxable years beginning before December 31, 2030, the
20 credit is equal to twenty-four percent of that amount.

21 (ii) For taxable years beginning from and after December 31, 2030,
22 the credit is equal to twenty percent of that amount.

23 (b) If the excess is over \$2,500,000:

24 (i) For taxable years beginning before December 31, 2030, the
25 credit is equal to \$600,000 plus fifteen percent of any amount
26 exceeding \$2,500,000.

27 (ii) For taxable years beginning from and after December 31, 2030,
28 the credit is equal to \$500,000 plus eleven percent of any amount
29 exceeding \$2,500,000.

30 (c) For taxable years beginning from and after December 31, 2011,
31 an additional credit amount is allowed if the taxpayer made basic research
32 payments during the taxable year to a university under the jurisdiction of
33 the Arizona board of regents. The additional credit amount is equal to
34 ten percent of the excess, if any, of the basic research payments over the
35 qualified organization base period amount for the taxable year. The
36 department shall not allow credit amounts under this subdivision and
37 section 43-1168, subsection A, paragraph 1, subdivision (d) that exceed,
38 in the aggregate, a combined total of \$10,000,000 in any calendar
39 year. Subject to that limit, on application by the taxpayer, the
40 department shall certify credit amounts under this subdivision and section
41 43-1168, subsection A, paragraph 1, subdivision (d) based on priority
42 placement established by the date that the taxpayer filed the application.
43 For taxable years beginning from and after December 31, 2014, any basic
44 research payments used to determine the additional credit under this
45 subdivision must first receive certification from the Arizona commerce

1 authority pursuant to section 41-1507.01. The additional credit amount
 2 under this subdivision shall not exceed the amount allowed based on actual
 3 basic research payments or the department's certification, whichever is
 4 less. If an application, if certified in full, would exceed the
 5 \$10,000,000 limit, the department shall certify only an amount within that
 6 limit. After the limit is attained, the department shall deny any
 7 subsequent applications regardless of whether other certified amounts are
 8 not actually claimed as a credit or other taxpayers fail to qualify to
 9 actually claim certified amounts. Notwithstanding ~~subsections~~ SUBSECTION
 10 B ~~and C~~ of this section, any amount of the additional credit under this
 11 subdivision that exceeds the taxes otherwise due under this title is not
 12 refundable, but may be carried forward to the next five consecutive
 13 taxable years. For the purposes of this subdivision, "basic research
 14 payments" and "qualified organization base period amount" have the same
 15 meanings prescribed by section 41(e) of the internal revenue code without
 16 regard to whether the taxpayer is or is not a corporation.

17 2. Qualified research includes only research conducted in this
 18 state, including research conducted at a university in this state and paid
 19 for by the taxpayer.

20 3. If two or more taxpayers, including partners in a partnership
 21 and shareholders of an S corporation, as defined in section 1361 of the
 22 internal revenue code, share in the eligible expenses, each taxpayer is
 23 eligible to receive a proportionate share of the credit.

24 4. The credit under this section applies only to expenses incurred
 25 from and after December 31, 2000.

26 5. The termination provisions of section 41 of the internal revenue
 27 code do not apply.

28 B. ~~Except as provided by subsection C of this section,~~ If the
 29 allowable credit under this section exceeds the taxes otherwise due under
 30 this title on the claimant's income, or if there are no taxes due under
 31 this title, the amount of the credit that is claimed for taxable years
 32 beginning before January 1, 2022 and that is not used to offset taxes may
 33 be carried forward to the next fifteen consecutive taxable years and the
 34 amount of the credit that is claimed for taxable years beginning from and
 35 after December 31, 2021 and that is not used to offset taxes may be
 36 carried forward to the next ten consecutive taxable years. The amount of
 37 credit carryforward from taxable years beginning from and after December
 38 31, 2002 that may be used in any taxable year may not exceed the
 39 taxpayer's tax liability under this title minus the credit under this
 40 section for the current taxable year's qualified research
 41 expenses. ~~A taxpayer who carries forward any amount of credit under this~~
 42 ~~subsection may not thereafter claim a refund of any amount of the credit~~
 43 ~~under subsection C of this section.~~

44 ~~C. For taxable years beginning from and after December 31, 2009, if~~
 45 ~~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.

1 (ii) If the total qualifying investment is \$2,000,000,000 or more,
2 \$300,000 for each net new full-time employment position that has duties
3 associated with the qualified facility.

4 2. The amount of the credit shall not exceed the postapproval
5 amount determined by the Arizona commerce authority under section 41-1512,
6 subsection P.

7 3. Subject to subsections G and ~~F~~ I of this section:

8 (a) The credit amount computed under paragraph 1 of this subsection
9 is apportioned, and the taxpayer shall claim the credit in five equal
10 annual installments in each of five consecutive taxable years.

11 (b) The taxpayer may claim all five annual installments of a credit
12 that was preapproved before January 1, 2031 by the Arizona commerce
13 authority notwithstanding any intervening repeal or other termination of
14 the credit.

15 C. To claim the credit the taxpayer must:

16 1. Conduct a business that qualifies under section 41-1512.

17 2. Receive preapproval and postapproval from the Arizona commerce
18 authority pursuant to section 41-1512.

19 3. Submit to the department a copy of a current and valid
20 certification of qualification issued to the taxpayer by the Arizona
21 commerce authority.

22 D. To be counted for the purposes of the credit, an employee must
23 have been employed with job duties associated with the qualified facility
24 for at least ninety days during the taxable year in a permanent full-time
25 employment position of at least one thousand seven hundred fifty hours per
26 year. An employee who is hired during the last ninety days of the taxable
27 year shall be considered a new employee during the next taxable year. To
28 be counted for the purposes of the credit during the first taxable year of
29 employment, the employee must not have been previously employed by the
30 taxpayer within twelve months before the current date of hire. The terms
31 of employment must comply in all cases with the requirements of section
32 41-1512 and be certified by the Arizona commerce authority.

33 E. Co-owners of a business, including partners in a partnership,
34 members of a limited liability company and shareholders of an
35 S corporation, as defined in section 1361 of the internal revenue code,
36 may each claim only the pro rata share of the credit allowed under this
37 section based on the ownership interest. The total of the credits allowed
38 all owners of the business may not exceed the amount that would have been
39 allowed for a sole owner of the business.

40 F. If the allowable tax credit for a taxable year exceeds the
41 income taxes otherwise due on the claimant's income, or if there are no
42 state income taxes due on the claimant's income, the amount of the claim
43 not used as an offset against income taxes shall be paid to the taxpayer
44 in the same manner as a refund under section 42-1118. Refunds made
45 pursuant to this subsection are subject to setoff under section 42-1122.

1 If the department determines that a refund is incorrect or invalid, the
2 excess refund may be treated as a tax deficiency pursuant to section
3 42-1108.

4 G. ~~Except as provided by subsection H of this section,~~ If, within
5 five taxable years after first receiving a credit pursuant to this
6 section, the certification of qualification of a business is terminated or
7 revoked under section 41-1512, other than for reasons beyond the control
8 of the business as determined by the Arizona commerce authority, the
9 taxpayer is disqualified from credits under this section in subsequent
10 taxable years. On a determination that the taxpayer has committed fraud
11 or relocated outside of this state within five taxable years after first
12 receiving a credit pursuant to this section, the credits allowed the
13 taxpayer in all taxable years pursuant to this section are subject to
14 recapture pursuant to this subsection. This subsection applies only in
15 the case of the termination or revocation of a certification of
16 qualification under section 41-1512. This subsection does not apply if,
17 in any taxable year, a taxpayer otherwise does not qualify for or fails to
18 claim the credit under this section. The recapture of credits is computed
19 by increasing the amount of taxes imposed in the year following the year
20 of termination or revocation by the full amount of all credits previously
21 allowed under this section.

22 ~~H. A taxpayer who claims a credit under section 43-1074 may not~~
23 ~~claim a credit under this section with respect to the same full-time~~
24 ~~employment positions.~~

25 ~~f.~~ H. The department of revenue shall adopt rules and prescribe
26 forms and procedures as necessary for the purposes of this section. The
27 department of revenue and the Arizona commerce authority shall collaborate
28 in adopting rules as necessary to avoid duplication and contradictory
29 requirements while accomplishing the intent and purposes of this section.

30 ~~j.~~ I. Each taxable year after the postapproval of the credit under
31 section 41-1512, subsection P, when the taxpayer files the taxpayer's
32 income tax return, the taxpayer shall:

33 1. Notify the department, on a form prescribed by the department,
34 of any full-time employment position for which a credit was claimed under
35 this section and that was vacant for more than one hundred fifty days
36 after the date the full-time employment position was originally filled to
37 the end of that taxable year. The period that a full-time employment
38 position was vacant may not include the period before the full-time
39 employment position was filled for the first time.

40 2. Reduce the portion of the credit claimed for the taxable year
41 pursuant to subsection B, paragraph 3 of this section by \$4,000 for each
42 full-time employment position reported pursuant to paragraph 1 of this
43 subsection.

1 Sec. 34. Section 43-1121, Arizona Revised Statutes, is amended to
2 read:

3 43-1121. Additions to Arizona gross income; corporations

4 In computing Arizona taxable income for a corporation, the following
5 amounts shall be added to Arizona gross income:

6 1. The amount of interest income received on obligations of any
7 state, territory or possession of the United States, or any political
8 subdivision thereof, located outside this state, reduced, for taxable
9 years beginning from and after December 31, 1996, by the amount of any
10 interest on indebtedness and other related expenses that were incurred or
11 continued to purchase or carry those obligations and that are not
12 otherwise deducted or subtracted in arriving at Arizona gross income.

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

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

20 4. The amount of any depreciation allowance allowed pursuant to
21 section 167(a) of the internal revenue code to the extent not previously
22 added.

23 5. The amount of dividend income received from corporations and
24 allowed as a deduction pursuant to sections 243, 245, 245A and
25 250(a)(1)(B) of the internal revenue code.

26 6. Taxes that are based on income paid to states, local governments
27 or foreign governments and that were deducted in computing federal taxable
28 income.

29 7. Expenses and interest relating to tax-exempt income on
30 indebtedness incurred or continued to purchase or carry obligations the
31 interest on which is wholly exempt from the tax imposed by this title.
32 Financial institutions, as defined in section 6-101, shall be governed by
33 section 43-961, paragraph 2.

34 8. Commissions, rentals and other amounts paid or accrued to a
35 domestic international sales corporation controlled by the payor
36 corporation if the domestic international sales corporation is not
37 required to report its taxable income to this state because its income is
38 not derived from or attributable to sources within this state. If the
39 domestic international sales corporation is subject to article 4 of this
40 chapter, the department shall prescribe by rule the method of determining
41 the portion of the commissions, rentals and other amounts that are paid or
42 accrued to the controlled domestic international sales corporation and
43 that shall be deducted by the payor. For the purposes of this paragraph,
44 "control" means direct or indirect ownership or control of fifty percent

1 or more of the voting stock of the domestic international sales
2 corporation by the payor corporation.

3 9. The amount of net operating loss taken pursuant to section 172
4 of the internal revenue code.

5 10. The amount of exploration expenses determined pursuant to
6 section 617 of the internal revenue code to the extent that they exceed
7 \$75,000 and to the extent that the election is made to defer those
8 expenses not in excess of \$75,000.

9 11. Amortization of costs incurred to install pollution control
10 devices and deducted pursuant to the internal revenue code or the amount
11 of deduction for depreciation taken pursuant to the internal revenue code
12 on pollution control devices for which an election is made pursuant to
13 section 43-1129.

14 12. The amount of depreciation or amortization of costs of child
15 care facilities deducted pursuant to section 167 or 188 of the internal
16 revenue code for which an election is made to amortize pursuant to section
17 43-1130.

18 13. The loss of an insurance company that is exempt under section
19 43-1201 to the extent that it is included in computing Arizona gross
20 income on a consolidated return pursuant to section 43-947.

21 14. The amount by which the depreciation or amortization computed
22 under the internal revenue code with respect to property for which a
23 credit was taken under section 43-1170 exceeds the amount of depreciation
24 or amortization computed pursuant to the internal revenue code on the
25 Arizona adjusted basis of the property.

26 15. The amount by which the adjusted basis computed under the
27 internal revenue code with respect to property ~~claimed under section 43-1170~~ **THAT IS POLLUTION CONTROL**
28 **EQUIPMENT** for which a credit was ~~claimed under section 43-1170~~ **TAKEN**
29 **BEFORE TAXABLE YEAR 2026** and that is sold or otherwise disposed of during
30 the taxable year exceeds the adjusted basis of the property computed under
31 ~~section 43-1170~~ **THE SECTION IN WHICH THE CREDIT WAS TAKEN.**

32 16. The deduction referred to in section 1341(a)(4) of the internal
33 revenue code for restoration of a substantial amount held under a claim of
34 right.

35 17. The amount by which a capital loss carryover allowable pursuant
36 to section 1341(b)(5) of the internal revenue code exceeds the capital
37 loss carryover allowable pursuant to section 43-1130.01, subsection F.

38 18. Any wage expenses deducted pursuant to the internal revenue
39 code for which a credit is claimed under section 43-1175 and representing
40 net increases in qualified employment positions for employment of
41 temporary assistance for needy families recipients.

42 19. Any amount of expenses that were deducted pursuant to the
43 internal revenue code and for which a credit is claimed under section
44 43-1178.

1 20. Any amount deducted pursuant to section 170 of the internal
2 revenue code representing contributions to a school tuition organization
3 for which a credit is claimed under section 43-1183 or 43-1184.

4 21. If a subtraction is or has been taken by the taxpayer under
5 section 43-1124, in the current or a prior taxable year for the full
6 amount of eligible access expenditures paid or incurred to comply with the
7 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)
8 or title 41, chapter 9, article 8, any amount of eligible access
9 expenditures that is recognized under the internal revenue code, including
10 any amount that is amortized according to federal amortization schedules,
11 and that is included in computing Arizona taxable income for the current
12 taxable year.

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

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

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

22 23. The amount of any deduction that is claimed in computing
23 Arizona gross income and that represents a donation of a school site for
24 which a credit is claimed under section 43-1181.

25 24. The amount of any motion picture production costs that was
26 deducted pursuant to the internal revenue code for which a tax credit is
27 claimed under section 43-1165.

28 Sec. 35. Section 43-1122, Arizona Revised Statutes, is amended to
29 read:

30 43-1122. Subtractions from Arizona gross income; corporations

31 In computing Arizona taxable income for a corporation, the following
32 amounts shall be subtracted from Arizona gross income:

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

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

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

41 4. The portion of any wages or salaries paid or incurred by the
42 taxpayer for the taxable year that is equal to the amount of the federal
43 work opportunity credit, the empowerment zone employment credit, the
44 credit for employer paid social security taxes on employee cash tips and

1 the Indian employment credit that the taxpayer received under sections
2 45A, 45B, 51(a) and 1396 of the internal revenue code.

3 5. With respect to property that is sold or otherwise disposed of
4 during the taxable year by a taxpayer that complied with section 43-1121,
5 paragraph 4 with respect to that property, the amount of depreciation that
6 has been allowed pursuant to section 167(a) of the internal revenue code
7 to the extent that the amount has not already reduced Arizona taxable
8 income in the current taxable year or prior taxable years.

9 6. With respect to a financial institution as defined in section
10 6-101, expenses and interest relating to tax-exempt income disallowed
11 pursuant to section 265 of the internal revenue code.

12 7. Dividends received from another corporation owned or controlled
13 directly or indirectly by a recipient corporation. For the purposes of
14 this paragraph, "control" means direct or indirect ownership or control of
15 fifty percent or more of the voting stock of the payor corporation by the
16 recipient corporation. Dividends shall have the meaning provided in
17 section 316 of the internal revenue code. This subtraction shall apply
18 without regard to section 43-961, paragraph 2 and article 4 of this
19 chapter.

20 8. Interest income received on obligations of the United States.

21 9. The amount of dividend income from foreign corporations. For
22 the purposes of this paragraph, gross up income as described in section 78
23 of the internal revenue code, ~~global intangible low-taxed~~ THE income as
24 ~~defined~~ DESCRIBED in section 951A of the internal revenue code and subpart
25 F income as defined in section 952 of the internal revenue code shall be
26 considered foreign dividends.

27 10. The amount of net operating loss allowed by section 43-1123.

28 11. The amount of any state income tax refunds received that were
29 included as income in computing federal taxable income.

30 12. The amount of expense recapture included in income pursuant to
31 section 617 of the internal revenue code for mine exploration expenses.

32 13. The amount of deferred exploration expenses allowed by section
33 43-1127.

34 14. The amount of exploration expenses related to the exploration
35 of oil, gas or geothermal resources, computed in the same manner and on
36 the same basis as a deduction for mine exploration pursuant to section 617
37 of the internal revenue code. This computation is subject to the
38 adjustments contained in section 43-1121, paragraph 10 and paragraphs 12
39 and 13 of this section relating to exploration expenses.

40 15. The amortization of pollution control devices allowed by
41 section 43-1129.

42 16. The amount of amortization of the cost of child care facilities
43 pursuant to section 43-1130.

1 17. The amount of income from a domestic international sales
2 corporation required to be included in the income of its shareholders
3 pursuant to section 995 of the internal revenue code.

4 18. The income of an insurance company that is exempt under section
5 43-1201 to the extent that it is included in computing Arizona gross
6 income on a consolidated return pursuant to section 43-947.

7 19. The amount by which a capital loss carryover allowable pursuant
8 to section 43-1130.01, subsection F exceeds the capital loss carryover
9 allowable pursuant to section 1341(b)(5) of the internal revenue code.

10 20. An amount equal to the depreciation allowable pursuant to
11 section 167(a) of the internal revenue code for the taxable year computed
12 as if the election described in section 168(k)(7) of the internal revenue
13 code had been made for each applicable class of property in the year the
14 property was placed in service.

15 21. The amount of eligible access expenditures paid or incurred
16 during the taxable year to comply with the requirements of the Americans
17 with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9,
18 article 8 as provided by section 43-1124.

19 22. For taxable years beginning from and after December 31, 2017,
20 the amount of any net capital gain included in Arizona gross income for
21 the taxable year that is derived from the exchange of one kind of legal
22 tender for another kind of legal tender. For the purposes of this
23 paragraph:

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

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

28 23. With respect to a public service corporation operating a water
29 system or sewage disposal facility, the amount of monies or property
30 received as a contribution in aid of construction. For the purposes of
31 this paragraph:

32 (a) "Contribution in aid of construction" means any amount of
33 monies or other property contributed to a public service corporation that
34 provides water or sewage disposal services to the extent that the purpose
35 of the contribution is to provide for expanding, improving or replacing
36 the public service corporation's water system or sewage disposal
37 facilities, including any amount of monies or other property contributed
38 to a public service corporation for a water system or sewage disposal
39 facility subject to a contingent obligation to repay the amount, in whole
40 or in part, to the contributor.

41 (b) "Public service corporation" means a public service corporation
42 as defined in article XV, section 2, Constitution of Arizona, that is
43 regulated by the corporation commission.

1 Sec. 36. Repeal
2 Sections 43-1161 and 43-1164.03, Arizona Revised Statutes, are
3 repealed.

4 Sec. 37. Section 43-1164.04, Arizona Revised Statutes, is amended
5 to read:

6 43-1164.04. Credit for qualified facilities

7 A. For taxable years beginning from and after December 31, 2012
8 through December 31, 2030, a credit is allowed against the taxes imposed
9 by this title for qualifying investment and employment in expanding or
10 locating a qualified facility in this state. To qualify for the credit,
11 after June 30, 2012 the taxpayer must invest in a new qualified facility
12 or expand an existing qualified facility in this state and produce new
13 full-time employment positions where the job duties are associated with
14 the location of the qualifying investment. The taxpayer must meet the
15 employee compensation and employee health benefit requirements prescribed
16 by section 41-1512.

17 B. The amount of the credit is computed as follows:

18 1. Ten percent of the lesser of:

19 (a) The total qualifying investment in the qualified facility.

20 (b) Either:

21 (i) If the total qualifying investment is less than \$2,000,000,000,
22 \$200,000 for each net new full-time employment position that has job
23 duties associated with the qualified facility.

24 (ii) If the total qualifying investment is \$2,000,000,000 or more,
25 \$300,000 for each net new full-time employment position that has job
26 duties associated with the qualified facility.

27 2. The amount of the credit shall not exceed the postapproval
28 amount determined by the Arizona commerce authority under section 41-1512,
29 subsection P.

30 3. Subject to subsections G and ~~J~~ I of this section:

31 (a) The credit amount computed under paragraph 1 of this subsection
32 is apportioned, and the taxpayer shall claim the credit in five equal
33 annual installments in each of five consecutive taxable years.

34 (b) The taxpayer may claim all five annual installments of a credit
35 that was preapproved before January 1, 2031 by the Arizona commerce
36 authority notwithstanding any intervening repeal or other termination of
37 the credit.

38 C. To claim the credit the taxpayer must:

39 1. Conduct a business that qualifies under section 41-1512.

40 2. Receive preapproval and postapproval from the Arizona commerce
41 authority pursuant to section 41-1512.

42 3. Submit to the department a copy of a current and valid
43 certification of qualification issued to the taxpayer by the Arizona
44 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.~~

~~H.~~ 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.

~~I.~~ 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.

1 3. The expected location of each of the taxpayer's facilities that
2 comprise the total investment in paragraph 2 of this subsection and the
3 earliest date that each facility is expected to be operational.

4 4. A statement that the portion of the power generated by each
5 facility, as required by subsection B, paragraph 2 of this section, shall
6 be for self-consumption and shall be used for international operations
7 center use.

8 5. Any additional information that the department requires.

9 F. The department shall review each application under subsection E
10 of this section and preapprove the taxpayer for a specified amount of
11 credit that is authorized. Credits are allowed under this section on a
12 first-come, first-served basis. The department may not authorize tax
13 credits under this section that exceed in the aggregate a total of
14 \$10,000,000 for any calendar year. The portion of each year's limit that
15 is reserved for each taxpayer must be based on the year that each credit
16 is expected to be claimed using the dates provided in subsection E,
17 paragraph 3 of this section. If the year a facility is completed is
18 different from the estimated completion date provided in subsection E,
19 paragraph 3 of this section, the taxpayer must amend the application with
20 the new dates. If an application is received that, if authorized, would
21 require the department to exceed the \$10,000,000 limit, the department
22 shall grant the applicant only the remaining credit amount that would not
23 exceed the \$10,000,000 limit. After the department authorizes \$10,000,000
24 in tax credits, the department shall deny any subsequent applications that
25 are received for that calendar year. The department may not authorize any
26 additional tax credits that exceed the \$10,000,000 limit even if the
27 amounts that have been certified to any taxpayer are not claimed or a
28 taxpayer otherwise fails to meet the requirements to claim the additional
29 credit.

30 G. If a taxpayer fails to start construction within six months
31 after submitting the application under subsection E of this section, the
32 preapproval issued under subsection F of this section is void and all
33 monies reserved from the limits specified in subsection F of this section
34 revert back to the limit for the year for which they were reserved.

35 H. Each year after initial preapproval, on or before the
36 anniversary date of the application specified in subsection E of this
37 section, the taxpayer must submit to the department:

38 1. Documentation of the taxpayer's progress toward the investment
39 required by subsection B, paragraph 1 of this section. This documentation
40 is not required after the department receives a report stating that the
41 required investment threshold has been reached.

42 2. Documentation for each facility that demonstrates that the
43 required portion of the power generated by each renewable energy facility
44 is for self-consumption as required by subsection B, paragraph 2 of this
45 section.

1 3. If applicable, certification from the Arizona commerce authority
2 pursuant to section 41-1520.

3 I. The taxpayer must submit a request for final certification to
4 the department within thirty days after each of the renewable energy
5 facilities for which an authorization was given under subsection F of this
6 section becomes operational. Within thirty days after receiving a
7 completed request under this subsection, the department shall review the
8 request and either issue a final certification of the credit to the
9 taxpayer or issue a denial of the credit if it is determined that the
10 requirements of this section have not been met. Every final certification
11 issued under this subsection must include a facility code issued by the
12 department that is unique to each facility. To show that the facility has
13 been certified, the taxpayer shall include with the tax return the
14 facility code for each facility for which a credit is claimed. If the
15 taxpayer is the owner or operator of an international operations center,
16 the taxpayer must submit the request for final certification for each of
17 the renewable energy facilities for which capital investment will be
18 claimed towards the required investment threshold and must submit
19 additional evidence to the department within sixty days after the end of
20 the fifth year of operation of each facility that the requirements of
21 subsection B, paragraph 2 of this section have been met.

22 J. If the taxpayer fails to make the required investment in
23 renewable energy facilities within the time period required by subsection
24 B, paragraph 1 of this section or if the certification of an international
25 operations center has been revoked under section 41-1520 due to a failure
26 to make a \$1,250,000,000 investment in the center within ten years after
27 certification or if the taxpayer fails to receive final certification of
28 the credit under subsection I of this section, the taxpayer is not
29 eligible and must cease claiming any further credits under this section
30 and shall reimburse the amount of all credits previously received under
31 this section. The reimbursement must be made on the taxpayer's income tax
32 return for the taxable year in which it is first known that the required
33 investment would not be made within the required time or the taxable year
34 in which the certification was revoked. The department may give special
35 consideration or allow a temporary exemption from reimbursement if there
36 is extraordinary hardship due to factors beyond the taxpayer's control.
37 If the reimbursement is due to revocation of the certification of an
38 international operations center due to a failure to invest \$1,250,000,000
39 in the center within ten years after certification, the credits shall be
40 reimbursed in inverse proportion to the total capital investment made in
41 the international operations center divided by \$1,250,000,000. The
42 department may require reimbursement before the tenth anniversary of
43 certification of an international operations center if the facility has
44 been closed or relocated or the taxpayer has otherwise demonstrated that
45 the \$1,250,000,000 investment will not be timely made. For taxpayers

1 using investments made by third-party entities on behalf of or for the
2 direct benefit of the taxpayer, the investment threshold is
3 \$1,500,000,000. A third-party entity may not include the owner or
4 operator of the international operations center or, solely for the
5 purposes of this subsection, the owner's or operator's affiliated
6 entities.

7 K. If a particular facility ceases to meet the requirements of this
8 section or if the facility is sold, the taxpayer may not claim any future
9 credits related to that facility.

10 L. Co-owners of a business, including corporate partners in a
11 partnership and corporate members of a limited liability company treated
12 as a partnership, may each claim the pro rata share of the credit allowed
13 under this section based on ownership interest. Only co-owners that are
14 corporations may claim a share of the credit allowed under this section.
15 The total of the credits allowed all the owners of the business may not
16 exceed the amount that would have been allowed for a sole owner of the
17 business.

18 M. If the allowable tax credit for a taxpayer exceeds the taxes
19 otherwise due under this title on the claimant's income, or if there are
20 no taxes due under this title, the amount of the claim not used to offset
21 taxes under this title may be carried forward for not more than five
22 consecutive taxable years as a credit against subsequent years' income tax
23 liability.

24 ~~N. A taxpayer may not claim a credit under this section and section~~
25 ~~43-1164.03 regarding the same facilities.~~

26 ~~O.~~ N. The department shall adopt rules and publish and prescribe
27 forms and procedures as necessary to effectuate the purposes of this
28 section.

29 ~~P.~~ O. For the purposes of this section:

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

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

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

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

44 (d) Solid woody waste materials, including landscape or
45 right-of-way tree trimmings, rangeland maintenance residues, waste

1 pallets, crates and manufacturing, construction and demolition wood wastes
2 but excluding pressure-treated, chemically treated or painted wood wastes
3 and wood contaminated with plastic.

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

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

9 2. "International operations center" means a facility that is
10 certified by the Arizona commerce authority pursuant to section 41-1520.

11 3. "Renewable energy facility" means a facility in which the
12 taxpayer, or a third-party entity on behalf of and for the benefit of the
13 taxpayer, invested at least \$30,000,000, that has at least twenty
14 megawatts generating capacity or a minimum typical annual generation of
15 forty thousand megawatt hours, that is located on land in this state owned
16 or leased by the taxpayer or a third-party entity on behalf of and for the
17 benefit of the taxpayer and that produces electricity using a renewable
18 energy resource.

19 4. "Renewable energy resource" means a resource that generates
20 electricity through the use of only the following energy sources:

21 (a) Solar light.

22 (b) Solar heat.

23 (c) Wind.

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

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

28 Sec. 39. Section 43-1168, Arizona Revised Statutes, is amended to
29 read:

30 43-1168. Credit for increased research activity

31 A. A credit is allowed against the taxes imposed by this title in
32 an amount determined pursuant to section 41 of the internal revenue code,
33 except that:

34 1. The amount of the credit is computed as follows:

35 (a) Add:

36 (i) The excess, if any, of the qualified research expenses for the
37 taxable year over the base amount as defined in section 41(c) of the
38 internal revenue code.

39 (ii) The basic research payments determined under section
40 41(e)(1)(A) of the internal revenue code.

41 (b) If the sum computed under subdivision (a) of this paragraph is
42 \$2,500,000 or less:

43 (i) For taxable years beginning before December 31, 2030, the
44 credit is equal to twenty-four percent of that amount.

1 (ii) For taxable years beginning from and after December 31, 2030,
2 the credit is equal to twenty percent of that amount.

3 (c) If the sum computed under subdivision (a) of this paragraph is
4 over \$2,500,000:

5 (i) For taxable years beginning before December 31, 2030, the
6 credit is equal to \$600,000 plus fifteen percent of any amount exceeding
7 \$2,500,000.

8 (ii) For taxable years beginning from and after December 31, 2030,
9 the credit is equal to \$500,000 plus eleven percent of any amount
10 exceeding \$2,500,000.

11 (d) For taxable years beginning from and after December 31, 2011,
12 an additional credit amount is allowed if the taxpayer made basic research
13 payments during the taxable year to a university under the jurisdiction of
14 the Arizona board of regents. The additional credit amount is equal to
15 ten percent of the excess, if any, of the basic research payments over the
16 qualified organization base period amount for the taxable year. The
17 department shall not allow credit amounts under this subdivision and
18 section 43-1074.01, subsection A, paragraph 1, subdivision (c) that
19 exceed, in the aggregate, a combined total of \$10,000,000 in any calendar
20 year. Subject to that limit, on application by the taxpayer, the
21 department shall certify credit amounts under this subdivision and section
22 43-1074.01, subsection A, paragraph 1, subdivision (c) based on priority
23 placement established by the date that the taxpayer filed the application.
24 For taxable years beginning from and after December 31, 2014, any basic
25 research payments used to determine the additional credit under this
26 subdivision must first receive certification from the Arizona commerce
27 authority pursuant to section 41-1507.01. The additional credit amount
28 under this subdivision shall not exceed the amount allowed based on actual
29 basic research payments or the department's certification, whichever is
30 less. If an application, if certified in full, would exceed the
31 \$10,000,000 limit, the department shall certify only an amount within that
32 limit. After the limit is attained, the department shall deny any
33 subsequent applications regardless of whether other certified amounts are
34 not actually claimed as a credit or other taxpayers fail to qualify to
35 actually claim certified amounts. Notwithstanding ~~subsections~~ **SUBSECTION**
36 ~~B and C~~ of this section, any amount of the additional credit under this
37 subdivision that exceeds the taxes otherwise due under this title is not
38 refundable, but may be carried forward to the next five consecutive
39 taxable years. For the purposes of this subdivision, "basic research
40 payments" and "qualified organization base period amount" have the same
41 meanings prescribed by section 41(e) of the internal revenue code.

42 2. Qualified research includes only research conducted in this
43 state, including research conducted at a university in this state and paid
44 for by the taxpayer.

1 3. If two or more taxpayers, including corporate partners in a
2 partnership, share in the eligible expenses, each taxpayer is eligible to
3 receive a proportionate share of the credit.

4 4. The credit under this section applies only to expenses incurred
5 from and after December 31, 1993.

6 5. The termination provisions of section 41 of the internal revenue
7 code do not apply.

8 B. ~~Except as provided by subsection C of this section,~~ If the
9 allowable credit under this section exceeds the taxes otherwise due under
10 this title on the claimant's income, or if there are no taxes due under
11 this title, the amount of the credit claimed for taxable years beginning
12 before January 1, 2022 not used to offset taxes may be carried forward to
13 the next fifteen consecutive taxable years, and the amount of the credit
14 claimed for taxable years beginning from and after December 31, 2021 not
15 used to offset taxes may be carried forward to the next ten consecutive
16 taxable years. The amount of credit carryforward from taxable years
17 beginning from and after December 31, 2002 that may be used under this
18 subsection in any taxable year may not exceed the taxpayer's tax liability
19 under this title minus the credit under this section for the current
20 taxable year's qualified research expenses. ~~A taxpayer that carries~~
21 ~~forward any amount of credit under this subsection may not thereafter~~
22 ~~claim a refund of any amount of the credit under subsection C of this~~
23 ~~section.~~

24 ~~C. For taxable years beginning from and after December 31, 2009, if~~
25 ~~a taxpayer that claims a credit under this section employs fewer than one~~
26 ~~hundred fifty persons in the taxpayer's trade or business and if the~~
27 ~~allowable credit under this section exceeds the taxes otherwise due under~~
28 ~~this title on the claimant's income, or if there are no taxes due under~~
29 ~~this title, in lieu of carrying the excess amount of credit forward to~~
30 ~~subsequent taxable years under subsection B of this section, the taxpayer~~
31 ~~may elect to receive a refund as follows:~~

32 ~~1. The taxpayer must apply to the Arizona commerce authority for~~
33 ~~qualification for the refund pursuant to section 41-1507 and submit a copy~~
34 ~~of the authority's certificate of qualification to the department of~~
35 ~~revenue with the taxpayer's income tax return.~~

36 ~~2. The amount of the refund is limited to seventy-five percent of~~
37 ~~the amount by which the allowable credit under this section exceeds the~~
38 ~~taxpayer's tax liability under this title for the taxable year. The~~
39 ~~remainder of the excess amount of the credit is waived.~~

40 ~~3. The refund shall be paid in the manner prescribed by section~~
41 ~~42-1118.~~

42 ~~4. The refund is subject to setoff under section 42-1122.~~

43 ~~5. If the department determines that a credit refunded pursuant to~~
44 ~~this subsection is incorrect or invalid, the excess credit issued may be~~
45 ~~treated as a tax deficiency pursuant to section 42-1108.~~

1 Sec. 40. Repeal

2 Section 43-1170, Arizona Revised Statutes, is repealed.

3 Sec. 41. Title 43, Arizona Revised Statutes, is amended by adding
4 chapter 18, to read:

5 CHAPTER 18

6 SCHOLARSHIP GRANTING ORGANIZATIONS

7 ARTICLE 1. GENERAL PROVISIONS

8 43-1801. State election to participate; federal tax credit
9 for individual contributions to scholarship
10 granting organizations

11 A. THIS STATE ELECTS TO PARTICIPATE IN THE FEDERAL TAX CREDIT
12 ESTABLISHED BY SECTION 25F OF THE INTERNAL REVENUE CODE FOR INDIVIDUALS
13 WHO MAKE QUALIFIED CONTRIBUTIONS TO SCHOLARSHIP GRANTING ORGANIZATIONS.

14 B. THE DEPARTMENT SHALL COMPLY WITH ALL FEDERAL LAWS AND
15 REGULATIONS TO ADMINISTER THE FEDERAL TAX CREDIT ESTABLISHED BY SECTION
16 25F OF THE INTERNAL REVENUE CODE TO ENSURE THIS STATE IS ELIGIBLE TO
17 PARTICIPATE IN TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2026
18 AND ANNUALLY SUBMIT ALL OF THE REQUIRED INFORMATION TO THE UNITED STATES
19 SECRETARY OF THE TREASURY FOR PARTICIPATION.

20 43-1802. Scholarship granting organizations; certification;
21 list; rules

22 A. A NONPROFIT ORGANIZATION IN THIS STATE THAT IS EXEMPT OR THAT
23 HAS APPLIED FOR EXEMPTION FROM FEDERAL TAXATION UNDER SECTION 501(c)(3) OF
24 THE INTERNAL REVENUE CODE MAY APPLY TO THE DEPARTMENT FOR CERTIFICATION AS
25 A SCHOLARSHIP GRANTING ORGANIZATION, AND THE DEPARTMENT SHALL CERTIFY THAT
26 THE SCHOLARSHIP GRANTING ORGANIZATION MEETS THE REQUIREMENTS OF SECTION
27 25F OF THE INTERNAL REVENUE CODE AND THE APPLICABLE REGULATIONS OR
28 GUIDANCE ISSUED BY THE UNITED STATES SECRETARY OF THE TREASURY.

29 B. ON OR BEFORE JANUARY 1 OF EACH YEAR, THE DEPARTMENT SHALL:

30 1. SUBMIT TO THE UNITED STATES SECRETARY OF THE TREASURY A LIST OF
31 THE SCHOLARSHIP GRANTING ORGANIZATIONS THAT ARE CERTIFIED PURSUANT TO THIS
32 SECTION AND THAT ARE LOCATED IN THIS STATE.

33 2. POST THE LIST SUBMITTED PURSUANT TO PARAGRAPH 1 OF THIS
34 SUBSECTION ON THE DEPARTMENT'S OFFICIAL WEBSITE.

35 C. THE DEPARTMENT SHALL ADOPT RULES AND PUBLISH AND PRESCRIBE FORMS
36 AND PROCEDURES NECESSARY TO ADMINISTER THIS SECTION.

37 43-1803. Scholarships

38 FROM AND AFTER DECEMBER 31, 2026, A SCHOLARSHIP GRANTING
39 ORGANIZATION THAT IS CERTIFIED BY THE DEPARTMENT AND ON THE LIST SUBMITTED
40 PURSUANT TO SECTION 43-1802, SUBSECTION B, PARAGRAPH 1 MAY PROVIDE
41 SCHOLARSHIPS TO ELIGIBLE STUDENTS FOR ANY QUALIFIED ELEMENTARY OR
42 SECONDARY EDUCATION EXPENSES TO THE EXTENT ALLOWED UNDER FEDERAL LAW.

1 Sec. 42. Section 48-4203, Arizona Revised Statutes, is amended to
2 read:

3 48-4203. Powers and duties of board of directors; reporting
4 requirements; conflict of interest

5 A. The board of directors, on behalf of the district, may:

6 1. Adopt and use a corporate seal.

7 2. Sue and be sued.

8 3. Enter into contracts, including intergovernmental agreements
9 under title 11, chapter 7, article 3, as necessary to carry out the
10 purposes and requirements of this chapter. The district may contract with
11 a county sports authority established under title 11, chapter 5 to carry
12 out any power of the district.

13 4. Adopt administrative rules as necessary to administer and
14 operate the district and any property under its jurisdiction.

15 5. Adopt rules that allow weighted voting by board members and
16 establish conditions for terminating the district.

17 6. Employ an executive director and administrative and clerical
18 employees, or contract for other management personnel, and prescribe the
19 terms and conditions of their employment as necessary to carry out the
20 purposes of the district.

21 7. Acquire by any lawful means and operate, maintain, encumber and
22 dispose of real and personal property and interests in property. A
23 district established under section 48-4202, subsection A in a county with
24 a population of less than one million five hundred thousand persons may
25 acquire real property by eminent domain. A district established under
26 section 48-4202, subsection A in a county with a population of one million
27 five hundred thousand persons or more or section 48-4202, subsection B
28 shall not acquire real property by eminent domain. A district established
29 under section 48-4202, subsection C shall not acquire or own real property
30 or interests in real property.

31 8. Administer trusts declared or established for the district,
32 receive and hold in trust or otherwise property located in or out of this
33 state and, if not otherwise provided, dispose of the property for the
34 benefit of the district.

35 9. Retain legal counsel and other consultants as necessary to carry
36 out the purposes of the district.

37 B. The board of directors, on behalf of a district established
38 pursuant to section 48-4202, subsection B, may:

39 1. Use revenues paid to the district ~~pursuant to section 42-5031~~
40 ~~and other revenues the district may receive from other sources,~~ for the
41 purposes set forth in section 48-4204, subsection B.

42 2. Enter into agreements with developers, contractors, tenants and
43 other users of all or part of a multipurpose facility as determined
44 appropriate.

1 3. Pledge all or part of the revenues ~~described in section 42-5031,~~
2 ~~subsection B~~ PAID TO THE DISTRICT to secure the district's bonds or other
3 financial obligations issued or incurred under this chapter for the
4 construction of all or part of a multipurpose facility.

5 C. The board of directors of a district established pursuant to
6 section 48-4202, subsection B shall provide public outreach and education
7 on the purpose and activities of the district, including:

8 1. Presentations to the governing bodies of the municipalities in
9 the county in which the district is located.

10 2. Presentations to community, civic and business organizations.

11 3. Printed or electronic materials that support the purposes of
12 this subsection.

13 D. The board of directors shall:

14 1. Appoint from among its members a chairperson, a secretary and
15 such other officers as may be necessary to conduct its business. The
16 board of directors may appoint the chief financial officer of the county
17 as the district treasurer of a countywide district established under
18 section 48-4202, subsection A in a county with a population of less than
19 one million five hundred thousand persons. If the board does not appoint
20 the chief financial officer, the county treasurer is designated ex officio
21 as the treasurer. The board of directors of a district that is
22 established pursuant to section 48-4202, subsection A in a county with a
23 population of one million five hundred thousand persons or more or section
24 48-4202, subsection B shall designate a member of the board with financial
25 management or accounting experience or a person with whom the board has
26 contracted for financial management as treasurer of the district. The
27 county treasurer is designated ex officio as the treasurer of a district
28 that is established pursuant to section 48-4202, subsection C.

29 2. Keep and maintain a complete and accurate record of all its
30 proceedings. All proceedings and records of the board shall be open to
31 the public as required by title 38, chapter 3, article 3.1 and title 39,
32 chapter 1.

33 3. Provide for the use, maintenance and operation of the properties
34 and interests controlled by the district.

35 E. The board of directors of a district that is established
36 pursuant to section 48-4202, subsection B shall:

37 1. Determine by agreement the distribution of revenues from
38 operating and using the multipurpose facilities among the municipalities
39 and any participating Indian tribe or community.

40 2. Report to the legislature by October 1 of each year regarding
41 the activities, operations, revenues and expenditures of the district for
42 the immediately preceding fiscal year. The board shall submit the annual
43 report to the president of the senate and the speaker of the house of
44 representatives and provide a copy of the report to the secretary of
45 state. At the discretion of the chairpersons of the senate finance

1 committee and the house of representatives ways and means committee, or
2 their successor committees, the committees may hold separate or joint
3 hearings to consider the annual report prepared by the district.

4 3. Present to the joint legislative committee on capital review
5 each project for the construction or reconstruction of any facility,
6 structure, infrastructure or other improvement to real property of any
7 kind in an amount exceeding \$500,000.

8 F. The board of directors of a district that is established
9 pursuant to section 48-4202, subsection A in a county with a population of
10 more than one million five hundred thousand persons:

11 1. May enter into agreements with contractors, tenants and other
12 users of all or part of the major league baseball facility or any adjacent
13 building that is owned by the district and operated by the district or the
14 professional baseball franchise organization that occupies the major
15 league baseball facility or adjacent building as determined appropriate,
16 including agreements for reconstructing, equipping, repairing, maintaining
17 or improving the major league baseball facility or adjacent building.

18 2. On or before November 1 of each year through 2055, shall report
19 to the joint legislative budget committee and the governor's office of
20 strategic planning and budgeting regarding all new projects for
21 reconstructing, equipping, repairing, maintaining or improving a major
22 league baseball facility or any adjacent building that is paid for by the
23 district from the county stadium district fund established pursuant to
24 section 48-4231. The report shall indicate which projects the
25 professional baseball franchise organization contributed monies toward and
26 the amount of the contribution.

27 G. The directors, officers and employees of the district are
28 subject to title 38, chapter 3, article 8 relating to conflicts of
29 interest.

30 H. This state and political subdivisions of this state other than
31 the district are not liable for any financial or other obligations of the
32 district and the financial or other obligations do not constitute a debt
33 or liability of this state or any political subdivision of this state,
34 other than the district.

35 Sec. 43. Section 48-4204, Arizona Revised Statutes, is amended to
36 read:

37 48-4204. Constructing and operating a stadium and other
38 structures; regulating alcoholic beverages

39 A. From the taxes and surcharges levied pursuant to article 2 of
40 this chapter for use with respect to major league baseball spring
41 training, the district may acquire land and construct, finance, furnish,
42 maintain, improve, operate, market and promote the use of existing or
43 proposed major league baseball spring training facilities or stadiums and
44 other structures, utilities, roads, parking areas or buildings necessary
45 for full use of the training facilities or stadiums for sports and other

1 purposes and do all things necessary or convenient to accomplish those
2 purposes. The board shall require that any project undertaken by the
3 district include financial participation from the county or municipality
4 in which the project is located, from a private party or from any
5 combination of these entities that equals or exceeds one-half of the
6 amount to be expended or distributed by the district. Capital improvement
7 funds expended by a county, municipality or private party for a purpose
8 authorized by this section may be deemed financial participation with
9 respect to any project the district may undertake.

10 B. From the taxes and charges levied or identified pursuant to
11 section 48-4237 for use with respect to multipurpose facilities and from
12 other monies lawfully available to the district, the district may acquire
13 land and construct, finance, furnish, maintain, improve, operate, market
14 and promote the use of multipurpose facilities and other structures,
15 utilities, roads, parking areas or buildings necessary for full use of the
16 multipurpose facilities and do all things necessary or convenient to
17 accomplish those purposes. Public monies identified in section
18 ~~48-4237, including monies distributed pursuant to section 42-5031,~~ may
19 only be used for the components for a multipurpose facility that are owned
20 by the district or that are publicly owned or for the following purposes:

- 21 1. Debt service for bonds issued by the district before January 1,
22 2009.
- 23 2. Contractual obligations incurred by the district before June 1,
24 2009.
- 25 3. Fiduciary, reasonable legal and administrative expenses of the
26 district.
- 27 4. The design and construction of the hotel and convention center
28 located on the multipurpose facility site.

29 C. For the public monies identified in section 48-4237, ~~including~~
30 ~~monies distributed pursuant to section 42-5031,~~ and from which the
31 district board has planned an expenditure of ~~five hundred thousand dollars~~
32 ~~\$500,000~~ or more, the following apply:

- 33 1. Each district board member shall provide advance notice of the
34 consideration of the expenditure by the board to the person who holds the
35 office that is responsible for that board member's appointment.
- 36 2. The notice prescribed in paragraph 1 of this subsection must be
37 provided by regular mail delivered to the office that is responsible for
38 that board member's appointment and may be preceded by any other form of
39 notice. The notice must be provided at least two weeks before the date of
40 the meeting and must be posted to the district's website on the day the
41 notice is mailed.
- 42 3. The notice prescribed in paragraph 1 of this subsection must be
43 accompanied by the board member's written statement as to whether the
44 board member has any financial interest in the subject of the proposed
45 expenditure by the board. The board members' written statements may be

1 provided in a single document that is prepared by the board's
2 administrative personnel but must be signed by the board members and must
3 be posted to the district's website with the notice prescribed in
4 paragraph 1 of this subsection.

5 4. The district board may not artificially divide or fragment
6 planned expenditures so as to circumvent the requirements of this
7 subsection.

8 ~~D. A district established pursuant to section 48-4202, subsection B~~
9 ~~may not use monies distributed pursuant to section 42-5031 for the~~
10 ~~salaries or compensation of any employee of the municipality in which the~~
11 ~~district is located.~~

12 ~~E.~~ D. Pursuant to an intergovernmental agreement with the Arizona
13 board of regents, from the revenues collected from assessments pursuant to
14 section 48-4235 for use with respect to Arizona board of regents owned
15 intercollegiate athletic facilities, the district may construct,
16 reconstruct, finance, furnish, maintain and improve existing
17 intercollegiate athletic facilities located on Arizona board of regents'
18 property, including utilities, roads, parking areas or buildings necessary
19 for full use of the athletic facilities.

20 ~~F.~~ E. Title 34 applies to the district, except that regardless of
21 the funding source for design and construction of facilities and
22 structures the district may establish alternative systems and procedures,
23 including the use of the design-build method of construction or the use of
24 qualifications-based selection of contractors with experience in stadium
25 design or construction, to expedite the design and construction or
26 reconstruction of any of its facilities or structures or any facilities or
27 structures leased to it or used by it pursuant to an intergovernmental
28 agreement. For the purposes of this subsection:

29 1. "Design-build" means a process of entering into and managing a
30 contract between the district and another party in which the other party
31 agrees to both design and build a structure, a facility or other items
32 specified in the contract.

33 2. "Qualifications-based selection" means a process of entering
34 into and managing a contract between the district and another party in
35 which the other party is selected by the district on the basis of the
36 party's qualifications and experience in designing or constructing
37 facilities, structures or other items similar to those the district is
38 authorized to construct or lease. The other party may be selected by
39 direct selection or by public competition.

40 ~~G.~~ F. For the purposes of financing, designing, constructing,
41 reconstructing or operating facilities or structures, the district is not
42 the agent of any municipality, this state or any agency or instrumentality
43 of this state participating in the funding of such facilities or
44 structures.

1 ~~H.~~ G. Subject to the requirements of title 4, the board of
2 directors may permit and regulate the sale, use and consumption of
3 alcoholic beverages at events held on property acquired, leased or
4 subleased under this article.

5 Sec. 44. Section 48-4231.01, Arizona Revised Statutes, is amended
6 to read:

7 48-4231.01. Financial and performance audits of districts
8 owning multipurpose facilities; appearance
9 before joint committee on capital review

10 A. Beginning in 2010 and every three years thereafter, the auditor
11 general shall contract with an independent auditor to conduct a
12 performance audit as defined in section 41-1278, including a financial
13 audit, of each district organized under section 48-4202, subsection B.
14 The independent auditor must have national status with expertise in
15 evaluating public construction, ownership and management of capital
16 improvements that include hospitality, convention and sports venue
17 facilities. The audit must be completed within one hundred twenty days
18 after the end of the fiscal year.

19 B. The audit shall include consideration of:

20 1. Capital costs, including debt service, of the multipurpose
21 facility and other assets of the district.

22 2. The level of the district's indebtedness, the amount of
23 principal, interest and other debt service expenses paid in the preceding
24 fiscal year and the remaining term to maturity with respect to each
25 outstanding bond issue.

26 3. Operation and maintenance costs of the multipurpose facility and
27 other assets of the district.

28 4. The district's overall expenditures in the preceding fiscal
29 year, including:

30 (a) The level of expenses for administration, planning, travel and
31 entertainment.

32 (b) The success of those expenditures in supporting and achieving
33 the district's purposes.

34 5. A description of and the amount of municipal payments ~~pursuant~~
35 ~~to section 42-5031, subsection D~~ during the preceding fiscal year and the
36 cumulative amount of those payments through the end of the preceding
37 fiscal year.

38 6. The public use of each component of the multipurpose facility.

39 7. Revenues derived from each component of the multipurpose
40 facility and other revenues of the district by source.

41 8. District projects that are currently under construction and that
42 are included in the district's plans for capital improvements and
43 investment.

1 C. The audit shall make findings and recommendations regarding the
2 construction, financing, operation and maintenance of each component of
3 the multipurpose facility, including whether the facility exceeds, meets
4 or fails to meet nationally recognized design and performance standards.

5 D. The district and the board of directors shall cooperate with and
6 submit to the auditor general and the auditor contracted to conduct the
7 audit information necessary to conduct and complete the audit in a timely
8 manner.

9 E. Within forty-five days after the audit is released, the board of
10 directors shall:

11 1. Hold a public hearing on the audit's findings and
12 recommendations and allow any person to make or submit oral or written
13 comments on the audit.

14 2. By majority vote adopt a public response agreeing, agreeing with
15 reservations or disagreeing with each finding and recommendation in the
16 audit.

17 F. The auditor general shall distribute copies of the audit and the
18 board of director's response to:

19 1. The mayor and governing body of the municipality in which the
20 district is located.

21 2. The governor.

22 3. The president of the senate and the speaker of the house of
23 representatives.

24 4. The department of revenue and the state treasurer.

25 5. The secretary of state.

26 6. Any other person who requests a copy of the audit.

27 G. The cost incurred by the auditor general in contracting with
28 independent auditors under this section is an operating expense of the
29 district ~~and shall be paid from revenues payable to the district pursuant~~
30 ~~to section 42-5031~~. The auditor general shall deposit the payments in the
31 audit services revolving fund established by section 41-1279.06.

32 H. At the request of the chairperson of the joint committee on
33 capital review, the executive director or a representative of the board of
34 directors shall appear before the joint committee on capital review to
35 report on any aspect of the district's operation, including the activities
36 and financial performance of the district during the previous fiscal year,
37 the district's plans for capital improvements and investment and the
38 district's response to the audit conducted under this section.

39 Sec. 45. Section 48-4231.02, Arizona Revised Statutes, is amended
40 to read:

41 48-4231.02. Financial reports; database of expenditures

42 A. Each district established pursuant to section 48-4202,
43 subsection B shall maintain on its official website a database of
44 expenditures made by the district. The database shall allow users to:

45 1. Search and aggregate payments by payee.

- 1 2. Search and aggregate payments by project.
- 2 3. Search and aggregate payments by year.
- 3 4. Search and aggregate all payments made by the district.
- 4 5. Download information yielded by a user query.
- 5 B. Each expenditure listing contained in the database shall
- 6 include:
- 7 1. The date and amount of each payment.
- 8 2. The name of the payee.
- 9 3. The project for which the payment was made.
- 10 4. The purpose for which the payment was made.
- 11 5. The fund or budget account from which the payment was made.
- 12 C. Each district established pursuant to section 48-4202,
- 13 subsection B shall maintain on its official website the annual financial
- 14 reports of the district and a listing and the sum of the payments made to
- 15 the district ~~pursuant to section 42-5031~~ FROM THIS STATE BEFORE JULY 1,
- 16 2026.

17 Sec. 46. Section 48-4237, Arizona Revised Statutes, is amended to
18 read:

19 48-4237. Transaction privilege tax: multipurpose facilities:
20 rate; administration

21 A. The board of directors of a district established pursuant to
22 section 48-4202, subsection B by resolution may seek authority for the
23 district to levy a transaction privilege tax for multipurpose facilities
24 or other taxes or charges pursuant to subsection E of this section, in
25 addition to or in lieu of other revenues collected pursuant to this
26 article, to be used and spent for the purposes described in section
27 48-4204, subsection B for the multipurpose facilities.

28 B. The board of directors shall present the question to the
29 governing bodies of the participating municipalities. The district is
30 exempt from section 16-226. The governing body of each municipality by
31 resolution may approve the district's request to place a question seeking
32 authority for the district to levy a multipurpose facilities district
33 transaction privilege tax solely within the district, or to impose other
34 taxes or charges pursuant to subsection E of this section on the ballot of
35 an election pursuant to this section held on the same date or on the same
36 ballot as the regularly scheduled election of one or more of the
37 participating municipalities or the state or on any of the four dates
38 prescribed by section 16-204. If the governing body of each municipality
39 approves the district's request for an election, and if a majority of the
40 qualified electors from each municipality voting at the election approves
41 the multipurpose facilities district transaction privilege tax or other
42 taxes or charges pursuant to subsection E of this section, the board by
43 resolution may levy and, if levied, the department of revenue shall
44 collect a transaction privilege tax solely within the district pursuant to
45 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

1 individual rents temporarily, to use while a vehicle owned by the
2 individual is not in use because of breakdown, repair, service, damage, or
3 loss as defined in the individual's applicable private passenger
4 automobile insurance policy.

5 4. Levy and, if levied, the department of revenue shall collect a
6 tax at a rate of not to exceed one ~~per cent~~ PERCENT of the gross proceeds
7 of sales or gross income from the business of every person engaging or
8 continuing in the district in a business taxed under sections 42-5070 and
9 42-5074 during a period of time before, during and after any specified
10 national championship sporting event or international games hosted in the
11 multipurpose facilities to secure the district's bonds or other financial
12 obligations issued or incurred under this chapter for the construction of
13 the multipurpose facilities.

14 5. Use amounts paid to the district ~~pursuant to section 42-5031~~ and
15 received from the multipurpose facility site the boundaries or boundary
16 amendment of which are described in the publicity pamphlet as allowed by
17 law, including securing the district's bonds or other financial
18 obligations issued or incurred under this chapter for the construction of
19 the multipurpose facilities which are owned by the district or which are
20 publicly owned.

21 F. Unless the context otherwise requires, section 42-6102 governs
22 the administration of any tax imposed under this section.

23 G. Each month the state treasurer shall remit to the district
24 treasurer the net revenues collected under this section during the second
25 preceding month. The district treasurer shall deposit the monies in the
26 stadium district fund. Revenues from a tax under this section shall not
27 be commingled with revenues collected pursuant to this article for any
28 other purpose but shall be separately accounted for and used solely with
29 respect to uses authorized in section 48-4204, subsection B.

30 H. In addition to other requirements prescribed by law, the board
31 shall prepare, print and distribute publicity pamphlets concerning the
32 proposed issue to be submitted to the voters. The board shall distribute
33 one copy of the publicity pamphlet at least ten but not more than thirty
34 days before the election to each household containing a registered voter
35 in the district. The publicity pamphlet shall contain all of the
36 following:

- 37 1. The date of the election.
- 38 2. The location of the polling places and the times the polling
39 places will be open.
- 40 3. A true copy of the title and text of the resolution proposing
41 the tax.
- 42 4. A summary of the purposes for which the tax is proposed to be
43 levied and a description of the multipurpose facilities.

1 5. The estimated cost of the multipurpose facility to be financed.

2 6. An estimate of the annual amount of revenues to be raised from
3 the proposed tax.

4 7. The geographic area, time period and amount of any tax, tax
5 distribution, or surcharge proposed under subsection E of this section.

6 Sec. 47. Applicability

7 Sections 20-224.03, 41-1525, 43-1074, 43-1083, 43-1083.02, 43-1161,
8 43-1164.03 and 43-1170, Arizona Revised Statutes, as repealed by this act,
9 apply to taxable years beginning from and after December 31, 2025.

10 Sec. 48. Retroactivity

11 A. Sections 42-1001, 43-105, 43-1022, 43-1041, 43-1121 and 43-1122,
12 Arizona Revised Statutes, as amended by this act, apply retroactively to
13 taxable years beginning from and after December 31, 2024.

14 B. Sections 43-1042, 43-1073.01, 43-1074.01 and 43-1168, Arizona
15 Revised Statutes, as amended by this act, apply retroactively to taxable
16 years beginning from and after December 31, 2025.

17 C. Section 42-5029, Arizona Revised Statutes, as amended by this
18 act, section 42-5031, Arizona Revised Statutes, as repealed by this act,
19 section 42-5061, Arizona Revised Statutes, as amended by this act, and
20 section 42-5159, Arizona Revised Statutes, as amended by Laws 2025,
21 chapter 135, section 2 and chapter 247, section 2 and this act, apply
22 retroactively to taxable periods beginning from and after June 30, 2026.

23 Sec. 49. Saving clause

24 The repeal of the premium and income tax credits by this act does
25 not affect the continuing validity of any amount of the credit carried
26 forward from previous taxable years for application against subsequent tax
27 liabilities as allowed by prior law.