

REFERENCE TITLE: tax corrections act of 2022

State of Arizona  
Senate  
Fifty-fifth Legislature  
Second Regular Session  
2022

## **SB 1579**

Introduced by  
Senator Livingston

### AN ACT

AMENDING SECTIONS 41-1516, 42-2003, 42-5075, 42-12006, 42-12057, 43-222, 43-405, 43-1014, 43-1021 AND 43-1022, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 3, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1026; AMENDING SECTION 43-1073, ARIZONA REVISED STATUTES; REPEALING SECTIONS 43-1076 AND 43-1081, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1081.01, 43-1121 AND 43-1130.01, ARIZONA REVISED STATUTES; REPEALING SECTION 43-1169, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1170 AND 43-1311, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 13, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1382; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 41-1516, Arizona Revised Statutes, is amended to  
3 read:

4 41-1516. Healthy forest enterprise incentives; definitions

5 A. The Arizona commerce authority shall:

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

9 2. Identify and certify to the department of revenue the names of  
10 and relevant information relating to qualified businesses for the purposes  
11 of available state tax incentives for economic enterprises that promote  
12 forest health in this state.

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

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

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

20 (b) If the qualifying forest product is on federal land, the  
21 business shall submit a letter from the federal agency administering the  
22 land, or official records or documents produced in connection with the  
23 project, stating that the business is primarily engaged in the business of  
24 harvesting or processing qualifying forest products for commercial use as  
25 follows:

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

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

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

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

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

39 (d) If the business is engaged in transporting qualifying forest  
40 products, it must submit a letter from the state forester or United States  
41 forest service, or official records or documents produced in connection  
42 with the project, stating that all of the qualifying forest products it  
43 transports are harvested from areas in this state. In addition, the  
44 business must submit evidence to the authority that at least seventy-five  
45 percent of the mileage traveled by its units each year are for

1 transporting qualifying forest products from or to qualifying projects  
2 described in subdivision (b) or (c) of this paragraph, unless a lower  
3 mileage is due to forest closures or weather conditions that are beyond  
4 the control of the business.

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

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

8 4. Must enter into a memorandum of understanding with the authority  
9 containing:

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

12 (b) A commitment to continue in business and use the qualifying  
13 equipment primarily on qualifying projects in this state as described in  
14 paragraph 1 of this subsection, other than for reasons beyond the control  
15 of the business. The authority shall consult with the department of  
16 revenue in designing the memorandum of understanding to incorporate the  
17 legal qualifications for the available tax incentives and shall include  
18 the requirement that any qualifying equipment that is purchased or leased  
19 free of transaction privilege or use tax must continue to be used in this  
20 state for the term of the memorandum of understanding or the duration of  
21 its operational life, whichever is shorter.

22 (c) Provisions considered necessary by the authority to ensure the  
23 competency and responsibility of businesses that qualify under this  
24 section, including registration or other accreditation with trade and  
25 professional organizations and compliance with best management and  
26 operational practices used by governmental agencies in awarding forestry  
27 contracts.

28 (d) The authorization for the authority to terminate, adjust or  
29 recapture all or part of the tax benefits provided to the business on  
30 noncompliance with the law, noncompliance with the terms of the memorandum  
31 or violation of the terms of any contracts with the federal or state  
32 government relating to the qualifying project. The authority shall notify  
33 the department of revenue of the conditions of noncompliance. The  
34 department of revenue may also terminate the certification if it obtains  
35 information indicating a failure to qualify and comply. The department of  
36 revenue may require the business to file appropriate amended tax returns  
37 or to file appropriate use tax returns reflecting the recapture of the  
38 direct or indirect tax benefits.

39 5. Must submit a copy of the certification to the department of  
40 revenue for approval before using the certification for purposes of any  
41 tax incentive. The department of revenue shall review and approve the  
42 certification in a timely manner if the business is in good standing with  
43 the department and is not delinquent in the payment of any tax collected  
44 by the department. A failure to approve or deny the certification within

1 sixty days after the date the business submits it to the department  
2 constitutes approval of the certification.

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

8 D. To obtain and maintain certification under this section, a  
9 business must:

10 1. Apply to the authority.

11 2. Submit and retain copies of all required information, including  
12 information relating to the actual or projected number of employees in  
13 this state.

14 3. Allow inspections and audits to verify the qualification and  
15 accuracy of information submitted to the authority.

16 E. Certification under this section is valid for sixty calendar  
17 months from the date of issuance. A business must apply for  
18 recertification at least thirty days before the current certification  
19 expires. The application for recertification shall be in a form  
20 prescribed by the authority and shall confirm that the business is  
21 continuing in a qualifying project and is in compliance with all  
22 requirements prescribed for certification.

23 F. Within sixty days after receiving a complete and correct  
24 application and all required information as prescribed by this section,  
25 the authority shall grant or deny certification and give written notice by  
26 certified mail to the applicant. The applicant is certified as a  
27 qualified business on the date the notice of certification is delivered to  
28 the applicant. A failure to respond within sixty days after receiving a  
29 complete and correct application constitutes approval of the application.

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

33 H. On or before March 1 of each year, each qualifying business  
34 shall make a report to the authority on all business activity in the  
35 preceding calendar year. Business information contained in the reports is  
36 confidential and shall not be disclosed to the public except as provided  
37 by this section and except that a copy of the report shall be transmitted  
38 to the department of revenue. The report shall be in a form prescribed by  
39 the authority and include:

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

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

1           ~~3.~~ 2. The quantity, measured by weight, of qualifying forest  
2 products harvested, transported or processed.  
3           I. On or before May 1 of each year, the authority shall report to  
4 the joint legislative budget committee:  
5           ~~1.~~ the quantity, measured by weight, of qualifying forest products  
6 reported by harvesters, by transporters and by processors in the preceding  
7 calendar year.  
8           ~~2. The number of new full-time employees hired in qualified~~  
9 ~~employment positions in this state in the preceding calendar year and~~  
10 ~~reported for tax credit purposes.~~  
11           ~~3. The total number of all full-time employees employed in~~  
12 ~~qualified employment positions in this state in the preceding calendar~~  
13 ~~year and reported for tax credit purposes.~~  
14           J. For the purposes of administering and ensuring compliance with  
15 this section, agents of the authority may enter, and a qualified business  
16 shall allow access to, a qualifying project site at reasonable times and  
17 on reasonable notice to:  
18           1. Inspect the facilities at the site.  
19           2. Obtain factual data and records pertinent to and required by law  
20 to be kept for purposes of tax incentives.  
21           3. Otherwise ascertain compliance with law and the terms of the  
22 memorandum of understanding.  
23           K. The authority shall revoke the business' certification and  
24 notify the department of revenue and county assessor if either:  
25           1. Within thirty days after a formal request from the authority or  
26 the department of revenue, the business fails or refuses to provide the  
27 information or access for inspections required by this section.  
28           2. The business no longer meets the terms and conditions required  
29 for qualification for the applicable tax incentives.  
30           L. For the purposes of this section:  
31           1. "Forest health" means the degree to which the integrity of the  
32 forest is sustained, including reducing the risk of catastrophic wildfire  
33 and destructive insect infestation, benefiting wildland habitats,  
34 watersheds and communities.  
35           2. "Harvesting" means all operations relating to felling or  
36 otherwise removing trees and other forest plant growth and preparing them  
37 for transport for subsequent processing.  
38           3. "Processing" means:  
39           (a) Any change in the physical structure of qualifying forest  
40 products removed from a qualifying project into a marketable commercial  
41 product or component of a product that has commercial value to a consumer  
42 or purchaser and that is ready to be used with or without further altering  
43 its form.

1 (b) Burning qualifying forest products in the process of commercial  
2 electrical generation or commercial thermal energy production for heating  
3 or cooling, regardless of the physical structure of the forest product  
4 before burning.

5 4. "Qualifying equipment" means equipment used directly in  
6 harvesting or processing qualifying forest products removed from a  
7 qualifying project. Qualifying equipment does not include self-propelled  
8 vehicles required to be licensed by this state, but may include other  
9 licensed vehicles as provided by this paragraph. Qualifying equipment  
10 includes:

11 (a) Forest thinning and residue removal equipment, including  
12 mulching and masticating equipment, feller-bunchers, skidders, log  
13 loaders, portable chippers and grinders, slash bundlers, delimiters, log  
14 trailers, chip trailers and other trailers that are uniquely designed for  
15 handling forest products and that are licensed for operation on public  
16 highways.

17 (b) Forest residue receiving and handling equipment, including  
18 truck dumpers, log unloaders, scales, log decking facilities and equipment  
19 and chip pile facilities.

20 (c) Sorting and processing equipment, including portable and  
21 stationary log loaders, front-end loaders, forklifts and cranes, chippers  
22 and grinders, screens, decks and debarkers, saws and sawmill equipment,  
23 firewood processing, wood residue baling and bagging equipment, kilns,  
24 planing and molding equipment and laminating and joining equipment.

25 (d) Forest waste and residue disposal and processing equipment,  
26 including:

27 (i) Processing and sizing equipment, hogs, chippers, screens,  
28 pelletizers and wood splitters.

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

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

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

35 (v) Generated waste disposal equipment, including ash silos and  
36 wastewater treatment and disposal equipment.

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

39 5. "Qualifying forest products" means dead standing and fallen  
40 timber, and forest thinnings associated with the harvest of small diameter  
41 timber, slash, wood chips, peelings, brush and other woody vegetation,  
42 removed from federal, state and other public forest land and from private  
43 forest land.

1           6. "Qualifying project" means harvesting, transporting or processing  
2 qualifying forest products as required for certification pursuant to this  
3 section.

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

6           42-2003. Authorized disclosure of confidential information

7           A. Confidential information relating to:

8           1. A taxpayer may be disclosed to the taxpayer, its successor in  
9 interest or a designee of the taxpayer who is authorized in writing by the  
10 taxpayer. A principal corporate officer of a parent corporation may  
11 execute a written authorization for a controlled subsidiary. **IF A  
12 TAXPAYER ELECTS TO FILE AN ARIZONA SMALL BUSINESS INCOME TAX RETURN UNDER  
13 SECTION 43-302, A WRITTEN AUTHORIZATION BY A TAXPAYER TO ALLOW THE  
14 DEPARTMENT TO DISCLOSE PERSONAL INCOME TAX INFORMATION TO A DESIGNEE  
15 INCLUDES THE CORRESPONDING ARIZONA SMALL BUSINESS INCOME TAX RETURN.**

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

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

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

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

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

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

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

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

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

9           B. Confidential information may be disclosed to:

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

18 (a) Regarding income tax or withholding tax.

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

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

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

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

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

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

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

35 (c) Fulfilling its annual reporting responsibility pursuant to  
36 ~~section 41-1511, subsections U and V and~~ section 41-1512, subsections U  
37 and V.

38 (d) Certifying computer data centers for tax relief under section  
39 41-1519.

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

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

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

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

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

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

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

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

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

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

21           21. THE ARIZONA DEPARTMENT OF AGRICULTURE FOR THE PURPOSE OF  
22 ASCERTAINING COMPLIANCE WITH THE LICENSING PROVISIONS IN TITLE 3.

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

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

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

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

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

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

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

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

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

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

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

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

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

31 (i) The transaction privilege tax license number.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23           V. The department may provide the name and address of qualifying  
24 hospitals and qualifying health care organizations, as defined in section  
25 42-5001, to a business that is classified and reporting transaction  
26 privilege tax under the utilities classification.

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

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

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

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

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

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

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

7 Sec. 3. Section 42-5075, Arizona Revised Statutes, is amended to  
8 read:

9 42-5075. Prime contracting classification; exemptions;  
10 definitions

11 A. The prime contracting classification is comprised of the  
12 business of prime contracting and the business of manufactured building  
13 dealer. Sales for resale to another manufactured building dealer are not  
14 subject to tax. Sales for resale do not include sales to a lessor of  
15 manufactured buildings. The sale of a used manufactured building is not  
16 taxable under this chapter. The prime contracting classification does not  
17 include any work or operation performed by a person that is not required  
18 to be licensed by the registrar of contractors pursuant to section  
19 32-1121.

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

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

26 2. Sales and installation of groundwater measuring devices required  
27 under section 45-604 and groundwater monitoring wells required by law,  
28 including monitoring wells installed for acquiring information for a  
29 permit required by law.

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

35 4. The gross proceeds of sales or gross income received from a  
36 contract entered into for the modification of any building, highway, road,  
37 railroad, excavation, manufactured building or other structure, project,  
38 development or improvement located in a military reuse zone for providing  
39 aviation or aerospace services or for a manufacturer, assembler or  
40 fabricator of aviation or aerospace products within an active military  
41 reuse zone after the zone is initially established or renewed under  
42 section 41-1531. To be eligible to qualify for this deduction, before  
43 beginning work under the contract, the prime contractor must have applied  
44 for a letter of qualification from the department of revenue.

1           5. The gross proceeds of sales or gross income derived from a  
2 contract to construct a qualified environmental technology manufacturing,  
3 producing or processing facility, as described in section 41-1514.02, and  
4 from subsequent construction and installation contracts that begin within  
5 ten years after the start of initial construction. To qualify for this  
6 deduction, before beginning work under the contract, the prime contractor  
7 must obtain a letter of qualification from the department of  
8 revenue. This paragraph shall apply for ten full consecutive calendar or  
9 fiscal years after the start of initial construction.

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

20           (a) Actions to monitor, assess and evaluate such a release or a  
21 suspected release.

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

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

27           (d) Pumping and treatment or in situ treatment of contaminated  
28 groundwater or surface water to reduce the concentration or toxicity of a  
29 contaminant.

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

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

39           7. The gross proceeds of sales or gross income that is derived from  
40 a contract for the installation, assembly, repair or maintenance of  
41 machinery, equipment or other tangible personal property that is either  
42 deducted from the tax base of the retail classification under section  
43 42-5061, subsection B or that is exempt from use tax under section  
44 42-5159, subsection B and that has independent functional utility,  
45 pursuant to the following provisions:



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

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

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

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

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

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

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

28 (i) Assembling the machinery, equipment or other tangible personal  
29 property.

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

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

35 (iv) Stabilizing or protecting the machinery, equipment or other  
36 tangible personal property during operation by bolting, burying or  
37 performing other similar nonpermanent connections to either real property  
38 or real property improvements.

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

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

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

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

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

2 9. The gross proceeds of sales or gross income received from a  
3 contract for the construction of an environmentally controlled facility  
4 for the raising of poultry for the production of eggs and the sorting,  
5 cooling and packaging of eggs.

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

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

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

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

32 14. The gross proceeds of sales or gross income derived from a  
33 contract entered into for the construction of a launch site, as defined in  
34 14 Code of Federal Regulations section 401.5.

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

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

42 17. The gross proceeds of sales or gross income received from  
43 contracts entered into before July 1, 2006 for constructing a state  
44 university research infrastructure project if the project has been  
45 reviewed by the joint committee on capital review before the university

1 enters into the construction contract for the project. For the purposes  
2 of this paragraph, "research infrastructure" has the same meaning  
3 prescribed in section 15-1670.

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

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

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

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

26 (c) "Development fees" means fees imposed to offset capital costs  
27 of providing public infrastructure, public safety or other public services  
28 to a development and authorized pursuant to section 9-463.05, section  
29 11-1102 or title 48 regardless of the jurisdiction to which the fees are  
30 paid.

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

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

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

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

6 (d) "Renewable energy" ~~has the same meaning prescribed in section~~  
7 ~~41-1511~~ MEANS USABLE ENERGY, INCLUDING ELECTRICITY, FUELS, GAS AND HEAT,  
8 PRODUCED THROUGH THE CONVERSION OF ENERGY PROVIDED BY SUNLIGHT, WATER,  
9 WIND, GEOTHERMAL, HEAT, BIOMASS, BIOGAS, LANDFILL GAS OR OTHER NONFOSSIL  
10 RENEWABLE RESOURCE.

11 C. Entitlement to the deduction pursuant to subsection B, paragraph  
12 7 of this section is subject to the following provisions:

13 1. A prime contractor may establish entitlement to the deduction by  
14 both:

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

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

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

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

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

1 complied with paragraph 1 of this subsection. Payment of the amount under  
2 this paragraph exempts the purchaser from liability for any tax imposed  
3 under article 4 of this chapter. The amount shall be treated as a  
4 transaction privilege tax to the purchaser and as tax revenues collected  
5 from the prime contractor in order to designate the distribution base for  
6 purposes of section 42-5029.

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

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

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

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

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

1 and "manufacturing facility" have the same meanings prescribed in section  
2 42-5032.02.

3 I. The gross proceeds of sales or gross income derived from a  
4 contract for lawn maintenance services is not subject to tax under this  
5 section if the contract does not include landscaping activities. Lawn  
6 maintenance service is a service pursuant to section 42-5061, subsection  
7 A, paragraph 1, and includes lawn mowing and edging, weeding, repairing  
8 sprinkler heads or drip irrigation heads, seasonal replacement of flowers,  
9 refreshing gravel, lawn dethatching, seeding winter lawns, leaf and debris  
10 collection and removal, tree or shrub pruning or clipping, garden and  
11 gravel raking and applying pesticides, as defined in section 3-361, and  
12 fertilizer materials, as defined in section 3-262.

13 J. Except as provided in subsection 0 of this section, the gross  
14 proceeds of sales or gross income derived from landscaping activities is  
15 subject to tax under this section. Landscaping includes installing lawns,  
16 grading or leveling ground, installing gravel or boulders, planting trees  
17 and other plants, felling trees, removing or mulching tree stumps,  
18 removing other imbedded plants, building irrigation berms, installing  
19 railroad ties and installing underground sprinkler or watering systems.

20 K. The portion of gross proceeds of sales or gross income  
21 attributable to the actual direct costs of providing architectural or  
22 engineering services that are incorporated in a contract is not subject to  
23 tax under this section. For the purposes of this subsection, "direct  
24 costs" means the portion of the actual costs that are directly expended in  
25 providing architectural or engineering services.

26 L. Operating a landfill or a solid waste disposal facility is not  
27 subject to taxation under this section, including filling, compacting and  
28 creating vehicle access to and from cell sites within the landfill.  
29 Constructing roads to a landfill or solid waste disposal facility and  
30 constructing cells within a landfill or solid waste disposal facility may  
31 be deemed prime contracting under this section.

32 M. The following apply in determining the taxable situs of sales of  
33 manufactured buildings:

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

37 2. For sales in this state where the manufactured building dealer  
38 does not contract to deliver the building to a setup site or does not  
39 perform the setup, the taxable situs is the location of the dealership  
40 where the building is delivered to the buyer.

41 3. For sales in this state where the manufactured building dealer  
42 contracts to deliver the building to a setup site that is outside this  
43 state, the situs is outside this state and the transaction is excluded  
44 from tax.

1 N. The gross proceeds of sales or gross income attributable to a  
2 written contract for design phase services or professional services,  
3 executed before modification begins and with terms, conditions and pricing  
4 of all of these services separately stated in the contract from those for  
5 construction phase services, is not subject to tax under this section,  
6 regardless of whether the services are provided sequential to or  
7 concurrent with prime contracting activities that are subject to tax under  
8 this section. This subsection does not include the gross proceeds of  
9 sales or gross income attributable to construction phase services. For  
10 the purposes of this subsection:

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

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

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

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

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

27 (ii) The amount of an adjustment, if any, to the guaranteed maximum  
28 price as set in the contract for modification work. For the purposes of  
29 this item, "guaranteed maximum price" means the amount guaranteed to be  
30 the maximum amount due to a prime contractor for the performance of all  
31 modification work for the project.

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

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

39 (e) Inspection to determine the dates of substantial completion or  
40 final completion.

41 (f) Preparation of any manuals, warranties, as-built drawings,  
42 spares or other items the prime contractor must furnish pursuant to the  
43 contract for modification work. For the purposes of this subdivision,  
44 "as-built drawing" means a drawing that indicates field changes made to

1 adapt to field conditions, field changes resulting from change orders or  
2 buried and concealed installation of piping, conduit and utility services.

3 (g) Preparation of status reports after modification work has begun  
4 detailing the progress of work performed, including preparation of any of  
5 the following:

6 (i) Master schedule updates.

7 (ii) Modification work cash flow projection updates.

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

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

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

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

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

17 (j) Administration or supervision of any other activities for which  
18 a prime contractor receives a certificate for payment or certificate for  
19 final payment based on the progress of modification work performed on the  
20 project.

21 2. "Design phase services" means services for developing and  
22 completing a design for a project that are not construction phase  
23 services, including the following:

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

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

30 (c) Preparing drawings and specifications for architectural program  
31 documents, schematic design documents, design development documents,  
32 modification work documents or documents that identify the scope of or  
33 materials for the project.

34 (d) Preparing an initial schedule for the project, excluding the  
35 preparation of updates to the master schedule after modification work has  
36 begun.

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

40 (i) Labor, materials, machinery and equipment, tools, water, heat,  
41 utilities, transportation and other facilities and services used in the  
42 execution and completion of modification work, regardless of whether they  
43 are temporary or permanent or whether they are incorporated in the  
44 modifications.



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

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

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

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

11 (vi) Any bond and insurance premiums.

12 (vii) Any applicable taxes.

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

15 (f) Reviewing and evaluating cost estimates and project documents  
16 to prepare recommendations on site use, site improvements, selection of  
17 materials, building systems and equipment, modification feasibility,  
18 availability of materials and labor, local modification activity as  
19 related to schedules and time requirements for modification work.

20 (g) Preparing the plan and procedures for selection of  
21 subcontractors, including any prequalification of subcontractor  
22 candidates.

23 3. "Professional services" means architect services, engineer  
24 services, geologist services, land surveying services or landscape  
25 architect services that are within the scope of those services as provided  
26 in title 32, chapter 1 and for which gross proceeds of sales or gross  
27 income has not otherwise been deducted under subsection K of this section.

28 0. The gross proceeds of sales or gross income derived from a  
29 contract with the owner of real property or improvements to real property  
30 for the maintenance, repair, replacement or alteration of existing  
31 property is not subject to tax under this section if the contract does not  
32 include modification activities, except as specified in this subsection.  
33 The gross proceeds of sales or gross income derived from a de minimis  
34 amount of modification activity does not subject the contract or any part  
35 of the contract to tax under this section. For the purposes of this  
36 subsection:

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

40 2. Each contract is independent of any other contract, except that  
41 any change order that directly relates to the scope of work of the  
42 original contract shall be treated the same as the original contract under  
43 this chapter, regardless of the amount of modification activities included  
44 in the change order. If a change order does not directly relate to the  
45 scope of work of the original contract, the change order shall be treated

1 as a new contract, with the tax treatment of any subsequent change order  
2 to follow the tax treatment of the contract to which the scope of work of  
3 the subsequent change order directly relates.

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

12 1. Community facilities districts, fire districts, county  
13 television improvement districts, community park maintenance districts,  
14 cotton pest control districts, hospital districts, pest abatement  
15 districts, health service districts, agricultural improvement districts,  
16 county free library districts, county jail districts, county stadium  
17 districts, special health care districts, public health services  
18 districts, theme park districts or revitalization districts.

19 2. Any special taxing district not specified in paragraph 1 of this  
20 subsection if the district does not substantially engage in the  
21 modification, maintenance, repair, replacement or alteration of surface or  
22 subsurface improvements to land.

23 Q. Notwithstanding subsection R, paragraph 10 of this section, a  
24 person owning real property who enters into a contract for sale of the  
25 real property, who is responsible to the new owner of the property for  
26 modifications made to the property in the period subsequent to the  
27 transfer of title and who receives a consideration for the modifications  
28 is considered a prime contractor solely for purposes of taxing the gross  
29 proceeds of sale or gross income received for the modifications made  
30 subsequent to the transfer of title. The original owner's gross proceeds  
31 of sale or gross income received for the modifications shall be determined  
32 according to the following methodology:

33 1. If any part of the contract for sale of the property specifies  
34 amounts to be paid to the original owner for the modifications to be made  
35 in the period subsequent to the transfer of title, the amounts are  
36 included in the original owner's gross proceeds of sale or gross income  
37 under this section. Proceeds from the sale of the property that are  
38 received after transfer of title and that are unrelated to the  
39 modifications made subsequent to the transfer of title are not considered  
40 gross proceeds of sale or gross income from the modifications.

41 2. If the original owner enters into an agreement separate from the  
42 contract for sale of the real property providing for amounts to be paid to  
43 the original owner for the modifications to be made in the period  
44 subsequent to the transfer of title to the property, the amounts are

1 included in the original owner's gross proceeds of sale or gross income  
2 received for the modifications made subsequent to the transfer of title.

3 3. If the original owner is responsible to the new owner for  
4 modifications made to the property in the period subsequent to the  
5 transfer of title and derives any gross proceeds of sale or gross income  
6 from the project subsequent to the transfer of title other than a delayed  
7 disbursement from escrow unrelated to the modifications, it is presumed  
8 that the amounts are received for the modifications made subsequent to the  
9 transfer of title unless the contrary is established by the owner through  
10 its books, records and papers kept in the regular course of business.

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

13 R. For the purposes of this section:

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

16 (a) For existing property that is properly classified as class two  
17 property under section 42-12002, paragraph 1, subdivision (c) or paragraph  
18 2, subdivision (c) and that is used for residential purposes, class three  
19 property under section 42-12003 or class four property under section  
20 42-12004, this paragraph does not apply if the contract amount is more  
21 than twenty-five percent of the most recent full cash value established  
22 under chapter 13, article 2 of this title as of the date of any bid for  
23 the work or the date of the contract, whichever value is higher.

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

27 (c) Project elements may not be artificially separated from a  
28 contract to cause a project to qualify as an alteration. The department  
29 has the burden of proof that project elements have been artificially  
30 separated from a contract.

31 (d) If a project for which the owner and the person performing the  
32 work reasonably believed, at the inception of the contract, would be  
33 treated as an alteration under this paragraph and, on completion of the  
34 project, the project exceeded the applicable threshold described in either  
35 subdivision (a) or (b) of this paragraph by no more than twenty-five  
36 percent of the applicable threshold for any reason, the work performed  
37 under the contract qualifies as an alteration.

38 (e) A change order that directly relates to the scope of work of  
39 the original contract shall be treated as part of the original contract,  
40 and the contract amount shall include any amount attributable to a change  
41 order that directly relates to the scope of work of the original contract.

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

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

44 3. "Contractor" is synonymous with the term "builder" and means any  
45 person or organization that undertakes to or offers to undertake to, or

1 purports to have the capacity to undertake to, or submits a bid to, or  
2 does personally or by or through others, modify any building, highway,  
3 road, railroad, excavation, manufactured building or other structure,  
4 project, development or improvement, or to do any part of such a project,  
5 including the erection of scaffolding or other structure or works in  
6 connection with such a project, and includes subcontractors and specialty  
7 contractors. For all purposes of taxation or deduction, this definition  
8 shall govern without regard to whether or not such a contractor is acting  
9 in fulfillment of a contract.

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

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

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

15 (b) Supervises, performs or coordinates the excavation and  
16 completion of site improvements or the setup of a manufactured building,  
17 including the contracting, if any, with any subcontractor or specialty  
18 contractor for the completion of the contract.

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

21 (a) Any project described in subsection 0 of this section.

22 (b) Any wreckage or demolition of existing property, or any other  
23 activity that is a necessary component of a project described in  
24 subsection 0 of this section.

25 (c) Any mobilization or demobilization related to a project  
26 described in subsection 0 of this section, such as the erection or removal  
27 of temporary facilities to be used by those persons working on the  
28 project.

29 7. "Modify" means to make a modification or cause a modification to  
30 be made.

31 8. "Owner" means the person that holds title to the real property  
32 or improvements to real property that is the subject of the work, as well  
33 as an agent of the title holder and any person with the authority to  
34 perform or authorize work on the real property or improvements, including  
35 a tenant and a property manager. For the purposes of subsection 0 of this  
36 section, a person who is hired by a general contractor that is hired by an  
37 owner, or a subcontractor of a general contractor that is hired by an  
38 owner, is considered to be hired by the owner.

39 9. "Prime contracting" means engaging in business as a prime  
40 contractor.

41 10. "Prime contractor" means a contractor who supervises, performs  
42 or coordinates the modification of any building, highway, road, railroad,  
43 excavation, manufactured building or other structure, project, development  
44 or improvement, including the contracting, if any, with any subcontractors  
45 or specialty contractors and who is responsible for the completion of the

1 contract. Except as provided in subsections E and Q of this section, a  
2 person who owns real property, who engages one or more contractors to  
3 modify that real property and who does not itself modify that real  
4 property is not a prime contractor within the meaning of this paragraph  
5 regardless of the existence of a contract for sale or the subsequent sale  
6 of that real property.

7 11. "Replacement" means the removal from service of one component  
8 or system of existing property or tangible personal property installed in  
9 existing property, including machinery or equipment, and the installation  
10 of a new component or system or new tangible personal property, including  
11 machinery or equipment, that provides the same, a similar or an upgraded  
12 design or functionality, regardless of the contract amount and regardless  
13 of whether the existing component or system or existing tangible personal  
14 property is physically removed from the existing property.

15 12. "Sale of a used manufactured building" does not include a lease  
16 of a used manufactured building.

17 Sec. 4. Section 42-12006, Arizona Revised Statutes, is amended to  
18 read:

19 42-12006. Class six property

20 For THE purposes of taxation, class six is established consisting  
21 of:

22 1. Noncommercial historic property as defined in section 42-12101  
23 and valued at full cash value.

24 2. Real and personal property that is located within the area of a  
25 foreign trade zone or subzone established under 19 United States Code  
26 ~~section 81~~ SECTIONS 81a THROUGH 81u and title 44, chapter 18, that is  
27 activated for foreign trade zone use by the district director of the  
28 United States customs service pursuant to 19 Code of Federal Regulations  
29 section 146.6 and that is valued at full cash value. Property that is  
30 classified under this paragraph shall not thereafter be classified under  
31 paragraph 6 of this section.

32 3. Real and personal property and improvements that are located in  
33 a military reuse zone that is established under title 41, chapter 10,  
34 article 3 and that is devoted to providing aviation or aerospace services  
35 or to manufacturing, assembling or fabricating aviation or aerospace  
36 products, valued at full cash value and subject to the following terms and  
37 conditions:

38 (a) Property may not be classified under this paragraph for more  
39 than five tax years.

40 (b) Any new addition or improvement to property already classified  
41 under this paragraph qualifies separately for classification under this  
42 paragraph for not more than five tax years.

43 (c) If a military reuse zone is terminated, the property in that  
44 zone that was previously classified under this paragraph shall be  
45 reclassified as prescribed by this article.

1 (d) Property that is classified under this paragraph shall not  
2 thereafter be classified under paragraph 6 of this section.

3 4. Real and personal property and improvements or a portion of such  
4 property comprising an environmental technology manufacturing, producing  
5 or processing facility that qualified under section 41-1514.02, valued at  
6 full cash value and subject to the following terms and conditions:

7 (a) Property shall be classified under this paragraph for twenty  
8 tax years from the date placed in service.

9 (b) Any addition or improvement to property already classified  
10 under this paragraph qualifies separately for classification under this  
11 subdivision for an additional twenty tax years from the date placed in  
12 service.

13 (c) After revocation of certification under section 41-1514.02,  
14 property that was previously classified under this paragraph shall be  
15 reclassified as prescribed by this article.

16 (d) Property that is classified under this paragraph shall not  
17 thereafter be classified under paragraph 6 of this section.

18 5. That portion of real and personal property that is used on or  
19 after January 1, 1999 specifically and solely for remediation of the  
20 environment by an action that has been determined to be reasonable and  
21 necessary to respond to the release or threatened release of a hazardous  
22 substance by the department of environmental quality pursuant to section  
23 49-282.06 or pursuant to its corrective action authority under rules  
24 adopted pursuant to section 49-922, subsection B, paragraph 4 or by the  
25 United States environmental protection agency pursuant to the national  
26 contingency plan (40 Code of Federal Regulations part 300) and that is  
27 valued at full cash value. Property that is not being used specifically  
28 and solely for the remediation objectives described in this paragraph  
29 shall not be classified under this paragraph. For the purposes of this  
30 paragraph, "remediation of the environment" means one or more of the  
31 following actions:

32 (a) Monitoring, assessing or evaluating the release or threatened  
33 release.

34 (b) Excavating, removing, transporting, treating and disposing of  
35 contaminated soil.

36 (c) Pumping and treating contaminated water.

37 (d) ~~Treatment, containment or removal~~ TREATING, CONTAINING OR  
38 REMOVING of contaminants in groundwater or soil.

39 6. Real and personal property and improvements constructed or  
40 installed from and after December 31, 2004 through December 31, 2024 and  
41 owned by a qualified business under section 41-1516 and used solely for  
42 the purpose of harvesting, transporting or processing qualifying forest  
43 products removed from qualifying projects as defined in section 41-1516.  
44 The classification under this paragraph is subject to the following terms  
45 and conditions:

1 (a) Property may be initially classified under this paragraph only  
2 in valuation years 2005 through 2024.

3 (b) Property may not be classified under this paragraph for more  
4 than five years.

5 (c) Any new addition or improvement, constructed or installed from  
6 and after December 31, 2004 through December 31, 2024, to property already  
7 classified under this paragraph qualifies separately for classification  
8 and assessment under this paragraph for not more than five years.

9 (d) Property that is classified under this paragraph shall not  
10 thereafter be classified under paragraph 2, 3 or 4 of this section.

11 7. Real and personal property and improvements to the property that  
12 are used specifically and solely to manufacture from and after December  
13 31, 2006 through December 31, 2023 biodiesel fuel that is one hundred ~~per~~  
14 ~~cent~~ PERCENT biodiesel and its by-products or motor vehicle biofuel and  
15 its by-products and that are valued at full cash value. This paragraph  
16 applies only to the portion of property that is used specifically for  
17 manufacturing and processing one hundred per cent biodiesel fuel, or its  
18 related by-products, or motor vehicle biofuel, or its related by-products,  
19 from raw feedstock obtained from off-site sources, including necessary  
20 on-site storage facilities that are intrinsically associated with the  
21 manufacturing process. Any other commercial or industrial use  
22 disqualifies the entire property from classification under this  
23 paragraph. For the purposes of this paragraph, "motor vehicle biofuel"  
24 means a solid, liquid or gaseous fuel that is derived from biological  
25 material such as plant or animal matter, excluding organic material that  
26 has been transformed by geological processes into substances such as coal  
27 or petroleum or derivatives thereof, and that:

28 (a) Contains fuel additives in compliance with federal and state  
29 law.

30 (b) Is manufactured exclusively for use in a motor vehicle.

31 8. Real and personal property and improvements ~~that are certified~~  
32 ~~pursuant to section 41-1511, subsection C, paragraph 2 and~~ that are used  
33 for renewable energy manufacturing or headquarters operations as provided  
34 by section 42-12057. This paragraph applies only to property that is used  
35 in manufacturing and headquarters operations of renewable energy  
36 companies, including necessary on-site research and development, testing  
37 and storage facilities that are associated with the manufacturing process.  
38 Up to ten ~~per cent~~ PERCENT of the aggregate full cash value of the  
39 property may be derived from uses that are ancillary to and intrinsically  
40 associated with the manufacturing process or headquarters operation. Any  
41 additional ancillary property is not qualified for classification under  
42 this paragraph. No new properties may be classified pursuant to this  
43 paragraph from and after December 31, 2014. ~~Classification under this~~  
44 ~~paragraph is limited to the time periods determined by the Arizona~~  
45 ~~commerce authority pursuant to section 41-1511, subsection C, paragraph 2,~~

1 ~~subdivision (a) or (b)~~. Property that is classified under this paragraph  
2 shall not thereafter be classified under any other paragraph of this  
3 section.

4 Sec. 5. Section 42-12057, Arizona Revised Statutes, is amended to  
5 read:

6 42-12057. Criteria for renewable energy property

7 A. To qualify for the classification as class six pursuant to  
8 section 42-12006, paragraph 8, the owner of a manufacturing facility or  
9 headquarters facility ~~must be certified pursuant to section 41-1511,~~  
10 ~~subsection C and~~ must provide documentation to the county assessor each  
11 year that the facility is primarily dedicated to renewable energy  
12 manufacturing or regional, national or global renewable energy business  
13 headquarters operations.

14 B. For the purposes of this section, renewable energy operations  
15 are limited to manufacturers of, and headquarters for, systems and  
16 components that are used or useful in manufacturing renewable energy  
17 equipment for ~~the generation, storage~~ GENERATING, STORING, testing and  
18 research and development, ~~transmission~~ TRANSMITTING or ~~distribution of~~  
19 DISTRIBUTING electricity from renewable resources, including specialized  
20 crates necessary to package the renewable energy equipment manufactured at  
21 the facility.

22 Sec. 6. Section 43-222, Arizona Revised Statutes, is amended to  
23 read:

24 43-222. Income tax credit review schedule

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

27 1. For years ending in 0 and 5, sections 43-1079.01, 43-1088,  
28 43-1089.04, 43-1167.01 and 43-1175.

29 2. For years ending in 1 and 6, sections 43-1072.02, 43-1074.02,  
30 43-1075, 43-1076.01, 43-1077, 43-1078, 43-1083, 43-1083.02, 43-1162,  
31 43-1164.03 and 43-1183.

32 3. For years ending in 2 and 7, sections 43-1073, 43-1085, 43-1086,  
33 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1164, ~~43-1169~~ and 43-1181.

34 4. For years ending in 3 and 8, sections 43-1074.01, ~~43-1081,~~  
35 43-1168, 43-1170 and 43-1178.

36 5. For years ending in 4 and 9, sections 43-1073.01, ~~43-1076,~~  
37 43-1081.01, 43-1083.03, 43-1084, 43-1164.04, 43-1164.05 and 43-1184.

38 Sec. 7. Section 43-405, Arizona Revised Statutes, is amended to  
39 read:

40 43-405. Extension of withholding to gambling winnings

41 A. For the purposes of this title, payments of prize winnings that  
42 are subject to federal withholding pursuant to section 1441 or section  
43 3402(q) of the internal revenue code by any of the following shall be  
44 treated as if they were payments of wages by an employer to employees for  
45 a payroll period:



- 1           1. The Arizona state lottery commission under title 5, chapter 5.1.  
2           2. A permittee conducting horse or dog racing under title 5,  
3 chapter 1.  
4           3. A FANTASY SPORTS CONTEST OPERATOR UNDER TITLE 5, CHAPTER 10.  
5           4. AN EVENT WAGERING OPERATOR UNDER TITLE 5, CHAPTER 11.  
6           B. The ~~lottery commission and permittees~~ ENTITIES LISTED IN  
7 SUBSECTION A OF THIS SECTION shall deduct and withhold from each payment  
8 of prize winnings made to an individual an amount equal to twenty percent  
9 of the amount withheld pursuant to section 1441 or section 3402(q) of the  
10 internal revenue code and pay that amount to the department pursuant to  
11 this article.  
12           Sec. 8. Section 43-1014, Arizona Revised Statutes, is amended to  
13 read:  
14           43-1014. Entity-level tax election; partnerships; S corporations  
15           A. For taxable years beginning from and after December 31, 2021,  
16 the partners or shareholders of a business that is treated as a  
17 partnership or S corporation for federal income tax purposes may consent  
18 to be taxed at the entity level at a rate of four and one-half percent of  
19 the entire portion of its taxable income that is attributable to its  
20 resident partners or shareholders and the portion of its taxable income  
21 derived from sources within this state that is attributable to its  
22 nonresident partners or shareholders for that taxable year. The election  
23 under this subsection must be made on or before the due date or extended  
24 due date of the business's return under this title.  
25           B. If the election is made under subsection A of this section, all  
26 of the following apply:  
27           1. The taxable income of the partnership or S corporation ~~shall be~~  
28 ~~computed under this chapter or chapter 14 of this title, as applicable IS~~  
29 AS FOLLOWS:  
30           (a) FOR A PARTNERSHIP, THE ARIZONA TAXABLE INCOME DETERMINED UNDER  
31 CHAPTER 14 OF THIS TITLE.  
32           (b) FOR AN S CORPORATION, THE TOTAL OF ALL DISTRIBUTIVE INCOME  
33 PASSED THROUGH TO THE SHAREHOLDERS UNDER SECTION 43-1126, SUBSECTION B.  
34           2. If the partnership or S corporation does not pay the amount owed  
35 to the department as a result of the election under this section, the  
36 department may collect the amount from the partners or shareholders based  
37 on the proportionate share of income that is attributable to each partner  
38 or shareholder for Arizona tax purposes.  
39           3. The partnership or S corporation shall pay estimated tax  
40 pursuant to section 43-581 as necessary.  
41           C. The election under subsection A of this section does not apply  
42 to the following:  
43           1. Partners or shareholders that are not individuals, estates or  
44 trusts. The portion of the taxable income attributable to a partner or

1 shareholder that is not an individual, estate or trust is not included in  
2 the entity-level tax under subsection A of this section.

3 2. Partners or shareholders who are individuals, estates or trusts  
4 and who opt out ~~or waive the right to opt out~~ of the election pursuant to  
5 subsection D of this section. The portion of the taxable income  
6 attributable to a partner or shareholder who is an individual, estate or  
7 trust and who opts out ~~or waives the right to opt out~~ of the election  
8 pursuant to subsection D of this section is not included in the  
9 entity-level tax under subsection A of this section.

10 D. A partnership or S corporation that intends to make the election  
11 under subsection A of this section shall notify all partners or  
12 shareholders who are individuals, estates or trusts of the intent to make  
13 the election and that each partner or shareholder who is an individual,  
14 estate or trust has the right to opt out of the election. The notice  
15 shall allow each partner or shareholder who is an individual, estate or  
16 trust at least sixty days after receiving the notice to notify the  
17 partnership or S corporation that the partner or shareholder who is an  
18 individual, estate or trust is exercising the partner's or shareholder's  
19 right to opt out of the election. If the partner or shareholder who is an  
20 individual, estate or trust does not respond within the sixty-day period  
21 or waives the right to opt out, the partner or shareholder will be  
22 included in the election.

23 E. The department shall adopt rules and prescribe forms and  
24 procedures as necessary to administer this section.

25 Sec. 9. Section 43-1021, Arizona Revised Statutes, is amended to  
26 read:

27 43-1021. Addition to Arizona gross income

28 In computing Arizona adjusted gross income, the following amounts  
29 shall be added to Arizona gross income:

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

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

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

44 4. The excess of a partner's share of partnership taxable income  
45 required to be included under chapter 14, article 2 of this title over the

1 income required to be reported under section 702(a)(8) of the internal  
2 revenue code.

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

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

9 7. The amount by which the depreciation or amortization computed  
10 under the internal revenue code with respect to property for which a  
11 credit was taken under ~~either~~ section ~~43-1081~~ or 43-1081.01 OR THAT IS  
12 POLLUTION CONTROL EQUIPMENT FOR WHICH A CREDIT WAS TAKEN BEFORE TAXABLE  
13 YEAR 2022 exceeds the amount of depreciation or amortization computed  
14 pursuant to the internal revenue code on the Arizona adjusted basis of the  
15 property.

16 8. The amount by which the adjusted basis computed under the  
17 internal revenue code with respect to property for which a credit was  
18 claimed under section 43-1074.02, ~~43-1081~~ or 43-1081.01 OR THAT IS  
19 POLLUTION CONTROL EQUIPMENT FOR WHICH A CREDIT WAS TAKEN BEFORE TAXABLE  
20 YEAR 2022 and that is sold or otherwise disposed of during the taxable  
21 year exceeds the adjusted basis of the property computed under section  
22 43-1074.02, ~~43-1081~~ or 43-1081.01 OR FOR POLLUTION CONTROL EQUIPMENT, THE  
23 SECTION IN WHICH THE CREDIT WAS TAKEN, as applicable.

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

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

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

34 12. The amount of a nonqualified withdrawal, as defined in section  
35 15-1871, from a college savings plan established pursuant to section 529  
36 of the internal revenue code that is made to a distributee to the extent  
37 the amount is not included in computing federal adjusted gross income,  
38 except that the amount added under this paragraph shall not exceed the  
39 difference between the amount subtracted under section 43-1022 in prior  
40 taxable years and the amount added under this section in any prior taxable  
41 years.

42 13. If a subtraction is or has been taken by the taxpayer under  
43 section 43-1024, in the current or a prior taxable year for the full  
44 amount of eligible access expenditures paid or incurred to comply with the  
45 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)

1 or title 41, chapter 9, article 8, any amount of eligible access  
2 expenditures that is recognized under the internal revenue code, including  
3 any amount that is amortized according to federal amortization schedules,  
4 and that is included in computing taxable income for the current taxable  
5 year.

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

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

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

15 15. For taxable years beginning from and after December 31, 2021,  
16 the amount deducted by the partnership or S corporation pursuant to the  
17 internal revenue code for the amount paid to this state under section  
18 43-1014 and for taxes that the department determines are substantially  
19 similar to the tax imposed under section 43-1014. This amount shall be  
20 reflected in the partner's or shareholder's Arizona gross income and the  
21 partnership's or S corporation's Arizona taxable income.

22 Sec. 10. Section 43-1022, Arizona Revised Statutes, is amended to  
23 read:

24 43-1022. Subtractions from Arizona gross income

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

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

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

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

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

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

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

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

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

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

13           8. The portion of any wages or salaries paid or incurred by the  
14 taxpayer for the taxable year that is equal to the amount of the federal  
15 work opportunity credit, the empowerment zone employment credit, the  
16 credit for employer paid social security taxes on employee cash tips and  
17 the Indian employment credit that the taxpayer received under sections  
18 45A, 45B, 51(a) and 1396 of the internal revenue code.

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

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

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

33           12. The amount of unreimbursed medical and hospital costs, adoption  
34 counseling, legal and agency fees and other nonrecurring costs of adoption  
35 not to exceed \$3,000. In the case of a husband and wife who file separate  
36 returns, the subtraction may be taken by either taxpayer or may be divided  
37 between them, but the total subtractions allowed both husband and wife may  
38 not exceed \$3,000. The subtraction under this paragraph may be taken for  
39 the costs that are described in this paragraph and that are incurred in  
40 prior years, but the subtraction may be taken only in the year during  
41 which the final adoption order is granted.

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

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

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

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

13           17. For property placed in service:

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

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

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

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

43           (e) In taxable years beginning from and after December 31, 2016, an  
44 amount equal to the depreciation allowable pursuant to section 167(a) of  
45 the internal revenue code for the taxable year as computed as if the

1 additional allowance for depreciation had been the full amount allowed  
2 pursuant to section 168(k) of the internal revenue code.

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

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

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

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

21 20. The portion of the net operating loss carryforward that would  
22 have been allowed as a deduction in the current year pursuant to section  
23 172 of the internal revenue code if the election described in section  
24 172(b)(1)(H) of the internal revenue code had not been made in the year of  
25 the loss that exceeds the actual net operating loss carryforward that was  
26 deducted in arriving at federal adjusted gross income. This subtraction  
27 only applies to taxpayers who made an election under section 172(b)(1)(H)  
28 of the internal revenue code as amended by section 1211 of the American  
29 recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by  
30 section 13 of the worker, homeownership, and business assistance act of  
31 2009 (P.L. 111-92).

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

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

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

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

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

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

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

15 25. For taxable years beginning from and after December 31, 2017,  
16 the amount of any net capital gain included in Arizona gross income for  
17 the taxable year that is derived from the exchange of one kind of legal  
18 tender for another kind of legal tender. For the purposes of this  
19 paragraph:

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

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

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

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

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

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

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

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

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



1 28. For taxable years beginning from and after December 31, 2020,  
2 Arizona small business ~~adjusted~~ gross income, but only if an individual  
3 taxpayer has elected to separately report and pay tax on the taxpayer's  
4 Arizona small business adjusted gross income on the Arizona small business  
5 income tax return.

6 Sec. 11. Title 43, chapter 10, article 3, Arizona Revised Statutes,  
7 is amended by adding section 43-1026, to read:

8 43-1026. Additions and subtractions filed on Arizona small  
9 business income tax returns

10 A TAXPAYER WHO ELECTS TO FILE AN ARIZONA SMALL BUSINESS INCOME TAX  
11 RETURN UNDER SECTION 43-302 FOR THE TAXABLE YEAR MAY NOT MAKE THE  
12 ADDITIONS OR SUBTRACTIONS UNDER SECTION 43-1021 OR 43-1022 TO THE  
13 TAXPAYER'S INDIVIDUAL INCOME TAX RETURN FOR AMOUNTS THAT ARE CORRECTLY  
14 MADE AS ADDITIONS OR SUBTRACTIONS ON THE TAXPAYER'S ARIZONA SMALL BUSINESS  
15 INCOME TAX RETURN UNDER SECTION 43-1721.

16 Sec. 12. Section 43-1073, Arizona Revised Statutes, is amended to  
17 read:

18 43-1073. Family income tax credit

19 A. Subject to the conditions prescribed by this section, a credit  
20 is allowed against the taxes imposed by this chapter for a taxable year  
21 for taxpayers whose Arizona adjusted gross income, plus the amount  
22 subtracted for exemptions under section 43-1023 AND THE AMOUNT SUBTRACTED  
23 FOR ARIZONA SMALL BUSINESS GROSS INCOME UNDER SECTION 43-1022, PARAGRAPH  
24 28, is:

25 1. \$20,000 or less in the case of a married couple filing a joint  
26 return with not more than one dependent or a single person who is a head  
27 of a household with not more than one dependent.

28 2. \$23,600 or less in the case of a married couple filing a joint  
29 return with two dependents.

30 3. \$27,300 or less in the case of a married couple filing a joint  
31 return with three dependents.

32 4. \$31,000 or less in the case of a married couple filing a joint  
33 return with four or more dependents.

34 5. \$20,135 or less in the case of a single person who is a head of  
35 a household with two dependents.

36 6. \$23,800 or less in the case of a single person who is a head of  
37 a household with three dependents.

38 7. \$25,200 or less in the case of a single person who is a head of  
39 a household with four dependents.

40 8. \$26,575 or less in the case of a single person who is a head of  
41 a household with five or more dependents.

42 9. \$10,000 or less in the case of a single person or a married  
43 person filing separately.

1           B. The amount of the credit is equal to \$40 for each person who is  
2 a resident of this state and who is either the taxpayer, the taxpayer's  
3 spouse who does not file a return or a dependent but may not exceed:

4           1. \$240 in the case of a married couple filing a joint return or a  
5 single person who is a head of a household.

6           2. \$120 in the case of a single person or a married couple filing  
7 separately.

8           3. For any taxpayer, the amount of taxes due under this chapter for  
9 the taxable year.

10          Sec. 13. Repeal

11          Sections 43-1076 and 43-1081, Arizona Revised Statutes, are  
12 repealed.

13          Sec. 14. Section 43-1081.01, Arizona Revised Statutes, is amended  
14 to read:

15          43-1081.01. Credit for agricultural pollution control  
16                 equipment

17          A. A credit is allowed against the taxes imposed by this title for  
18 expenses that a taxpayer, involved in the commercial production of  
19 livestock, livestock products or agricultural, horticultural, viticultural  
20 or floricultural crops or products, incurred during the taxable year to  
21 purchase tangible personal property that is primarily used in the  
22 taxpayer's trade or business in this state to control or prevent  
23 pollution. The amount of the credit is equal to twenty-five percent of  
24 the cost of the real or personal property. The maximum credit that a  
25 taxpayer may claim under this section is \$25,000 in a taxable year.

26          B. Property that qualifies for the credit under this section  
27 includes the portion of a structure, building, installation, excavation,  
28 machine, equipment or device and any attachment or addition to or  
29 reconstruction, replacement or improvement of that property that is  
30 directly used, constructed or installed in this state to prevent, monitor,  
31 control or reduce air, water or land pollution.

32          C. Amounts that qualify for a credit under this section must be  
33 includible in the taxpayer's adjusted basis for the property. The  
34 adjusted basis of any property with respect to which the taxpayer has  
35 claimed a credit shall be reduced by the amount of credit claimed with  
36 respect to that asset. This credit does not affect the deductibility for  
37 depreciation or amortization of the remaining adjusted basis of the asset.

38          D. Co-owners of a business, including individual partners in a  
39 partnership, may each claim only the pro rata share of the credit allowed  
40 under this section based on the ownership interest. The total of the  
41 credits allowed all such owners may not exceed the amount that would have  
42 been allowed a sole owner.

1 E. If the allowable tax credit exceeds the taxes otherwise due  
2 under this title on the claimant's income, or if there are no taxes due  
3 under this title, the amount of the claim not used to offset the taxes  
4 under this title may be carried forward to the next five consecutive  
5 taxable years as a credit against subsequent years' income tax liability.

6 ~~F. A taxpayer who claims a credit for pollution control equipment  
7 under this section shall not claim a credit under section 43-1081 for the  
8 same equipment or expense.~~

9 Sec. 15. Section 43-1121, Arizona Revised Statutes, is amended to  
10 read:

11 43-1121. Additions to Arizona gross income; corporations

12 In computing Arizona taxable income for a corporation, the following  
13 amounts shall be added to Arizona gross income:

14 1. The amount of interest income received on obligations of any  
15 state, territory or possession of the United States, or any political  
16 subdivision thereof, located outside this state, reduced, for taxable  
17 years beginning from and after December 31, 1996, by the amount of any  
18 interest on indebtedness and other related expenses that were incurred or  
19 continued to purchase or carry those obligations and that are not  
20 otherwise deducted or subtracted in arriving at Arizona gross income.

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

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

28 4. The amount of any depreciation allowance allowed pursuant to  
29 section 167(a) of the internal revenue code to the extent not previously  
30 added.

31 5. The amount of dividend income received from corporations and  
32 allowed as a deduction pursuant to sections 243, 245, 245A and  
33 250(a)(1)(B) of the internal revenue code.

34 6. Taxes that are based on income paid to states, local governments  
35 or foreign governments and that were deducted in computing federal taxable  
36 income.

37 7. Expenses and interest relating to tax-exempt income on  
38 indebtedness incurred or continued to purchase or carry obligations the  
39 interest on which is wholly exempt from the tax imposed by this title.  
40 Financial institutions, as defined in section 6-101, shall be governed by  
41 section 43-961, paragraph 2.

42 8. Commissions, rentals and other amounts paid or accrued to a  
43 domestic international sales corporation controlled by the payor  
44 corporation if the domestic international sales corporation is not  
45 required to report its taxable income to this state because its income is

1 not derived from or attributable to sources within this state. If the  
2 domestic international sales corporation is subject to article 4 of this  
3 chapter, the department shall prescribe by rule the method of determining  
4 the portion of the commissions, rentals and other amounts that are paid or  
5 accrued to the controlled domestic international sales corporation and  
6 that shall be deducted by the payor. For the purposes of this paragraph,  
7 "control" means direct or indirect ownership or control of fifty percent  
8 or more of the voting stock of the domestic international sales  
9 corporation by the payor corporation.

10 9. The amount of net operating loss taken pursuant to section 172  
11 of the internal revenue code.

12 10. The amount of exploration expenses determined pursuant to  
13 section 617 of the internal revenue code to the extent that they exceed  
14 \$75,000 and to the extent that the election is made to defer those  
15 expenses not in excess of \$75,000.

16 11. Amortization of costs incurred to install pollution control  
17 devices and deducted pursuant to the internal revenue code or the amount  
18 of deduction for depreciation taken pursuant to the internal revenue code  
19 on pollution control devices for which an election is made pursuant to  
20 section 43-1129.

21 12. The amount of depreciation or amortization of costs of child  
22 care facilities deducted pursuant to section 167 or 188 of the internal  
23 revenue code for which an election is made to amortize pursuant to section  
24 43-1130.

25 13. The loss of an insurance company that is exempt under section  
26 43-1201 to the extent that it is included in computing Arizona gross  
27 income on a consolidated return pursuant to section 43-947.

28 ~~14. The amount by which the depreciation or amortization computed~~  
29 ~~under the internal revenue code with respect to property for which a~~  
30 ~~credit was taken under section 43-1169 exceeds the amount of depreciation~~  
31 ~~or amortization computed pursuant to the internal revenue code on the~~  
32 ~~Arizona adjusted basis of the property.~~

33 ~~15. The amount by which the adjusted basis computed under the~~  
34 ~~internal revenue code with respect to property for which a credit was~~  
35 ~~claimed under section 43-1169 and that is sold or otherwise disposed of~~  
36 ~~during the taxable year exceeds the adjusted basis of the property~~  
37 ~~computed under section 43-1169.~~

38 ~~16.~~ 14. The amount by which the depreciation or amortization  
39 computed under the internal revenue code with respect to property for  
40 which a credit was taken under section 43-1170 exceeds the amount of  
41 depreciation or amortization computed pursuant to the internal revenue  
42 code on the Arizona adjusted basis of the property.

43 ~~17.~~ 15. The amount by which the adjusted basis computed under the  
44 internal revenue code with respect to property for which a credit was  
45 claimed under section 43-1170 and that is sold or otherwise disposed of

1 during the taxable year exceeds the adjusted basis of the property  
2 computed under section 43-1170.

3 ~~18.~~ 16. The deduction referred to in section 1341(a)(4) of the  
4 internal revenue code for restoration of a substantial amount held under a  
5 claim of right.

6 ~~19.~~ 17. The amount by which a capital loss carryover allowable  
7 pursuant to section 1341(b)(5) of the internal revenue code exceeds the  
8 capital loss carryover allowable pursuant to section 43-1130.01,  
9 subsection F.

10 ~~20.~~ 18. Any wage expenses deducted pursuant to the internal  
11 revenue code for which a credit is claimed under section 43-1175 and  
12 representing net increases in qualified employment positions for  
13 employment of temporary assistance for needy families recipients.

14 ~~21.~~ 19. Any amount of expenses that were deducted pursuant to the  
15 internal revenue code and for which a credit is claimed under section  
16 43-1178.

17 ~~22.~~ 20. Any amount deducted pursuant to section 170 of the  
18 internal revenue code representing contributions to a school tuition  
19 organization for which a credit is claimed under section 43-1183 or  
20 43-1184.

21 ~~23.~~ 21. If a subtraction is or has been taken by the taxpayer  
22 under section 43-1124, in the current or a prior taxable year for the full  
23 amount of eligible access expenditures paid or incurred to comply with the  
24 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)  
25 or title 41, chapter 9, article 8, any amount of eligible access  
26 expenditures that is recognized under the internal revenue code, including  
27 any amount that is amortized according to federal amortization schedules,  
28 and that is included in computing Arizona taxable income for the current  
29 taxable year.

30 ~~24.~~ 22. For taxable years beginning from and after December 31,  
31 2017, the amount of any net capital loss included in Arizona gross income  
32 for the taxable year that is derived from the exchange of one kind of  
33 legal tender for another kind of legal tender. For the purposes of this  
34 paragraph:

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

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

39 ~~25.~~ 23. The amount of any deduction that is claimed in computing  
40 Arizona gross income and that represents a donation of a school site for  
41 which a credit is claimed under section 43-1181.

1           Sec. 16. Section 43-1130.01, Arizona Revised Statutes, is amended  
2 to read:

3           43-1130.01. Restoration of a substantial amount held under  
4                                   claim of right; computation of tax

5           A. This section applies if:

6           1. An item of income was included in gross income for a prior  
7 taxable year or years because it appeared that the taxpayer had an  
8 unrestricted right to the item.

9           2. A deduction would be allowable under the internal revenue code  
10 or this title for the taxable year, without application of section  
11 1341(b)(3) of the internal revenue code or section 43-1121,  
12 paragraph ~~16~~ 16, because after the close of the prior taxable year or  
13 years it was established that the taxpayer did not have an unrestricted  
14 right to all or part of the item.

15           3. The amount of the deduction exceeds \$3,000.

16           B. If all of the conditions in subsection A of this section apply,  
17 the tax imposed by this chapter for the taxable year is an amount equal to  
18 the tax for the taxable year computed without the deduction, minus the  
19 decrease in tax under this chapter for the prior taxable year or years  
20 that would result solely from excluding the item or portion of the item  
21 from gross income for the prior taxable year or years.

22           C. If the decrease in tax exceeds the tax imposed by this chapter  
23 for the taxable year, computed without the deduction, the excess is  
24 considered to be a payment of tax on the last day prescribed by law for  
25 the payment of tax for the taxable year and shall be refunded or credited  
26 in the same manner as if it were an overpayment for the taxable year.

27           D. Subsection B of this section does not apply to any deduction  
28 that is allowable with respect to an item that was included in gross  
29 income by reason of the sale or other disposition of stock in trade of the  
30 taxpayer, or other property of a kind that would properly have been  
31 included in the inventory of the taxpayer on hand at the close of the  
32 prior taxable year, or property that is held by the taxpayer primarily for  
33 sale to customers in the ordinary course of the taxpayer's trade or  
34 business. This subsection does not apply if the deduction arises out of  
35 refunds or repayments with respect to rates made by a regulated public  
36 utility that is listed in section 7701(a)(33)(A) through (H) of the  
37 internal revenue code, if the refunds or repayments are:

38           1. Required to be made by the government, political subdivision,  
39 agency or instrumentality referred to in that section.

40           2. Required to be made by an order of a court.

41           3. Made in settlement of litigation or under threat or imminence of  
42 litigation.

43           E. If the exclusion under subsection B of this section results in:

1           1. A net operating loss for the prior taxable year or years for  
2 purposes of computing the decrease in tax for the prior year or years  
3 under subsection B of this section:

4           (a) The loss shall be carried over under this chapter to the same  
5 extent and in the same manner as provided under section 43-1123, and under  
6 prior law.

7           (b) A carryover beyond the taxable year may not be taken into  
8 account.

9           2. A capital loss for the prior taxable year or years, for purposes  
10 of computing the decrease in tax for the prior taxable year or years under  
11 subsection B of this section:

12           (a) The loss shall be:

13           (i) Carried over under this chapter to the same extent and in the  
14 same manner as was provided under prior law for taxable years beginning on  
15 or before December 31, 1987.

16           (ii) Carried back and carried over to the same extent and in the  
17 same manner as provided under section 1212 of the internal revenue code  
18 for taxable years beginning from and after December 31, 1987.

19           (b) A carryover beyond the taxable year may not be taken into  
20 account.

21           F. In computing Arizona taxable income for taxable years subsequent  
22 to the current taxable year, the net operating loss or capital loss  
23 determined in subsection E of this section shall be taken into account to  
24 the same extent and in the same manner as a net operating loss or capital  
25 loss sustained for prior taxable years.

26           Sec. 17. Repeal

27           Section 43-1169, Arizona Revised Statutes, is repealed.

28           Sec. 18. Section 43-1170, Arizona Revised Statutes, is amended to  
29 read:

30           43-1170. Credit for pollution control equipment

31           A. A credit is allowed against the taxes imposed by this title for  
32 expenses that the taxpayer incurred during the taxable year to purchase  
33 real or personal property that is used in the taxpayer's trade or business  
34 in this state to control or prevent pollution. The amount of the credit  
35 is equal to ten ~~per cent~~ PERCENT of the purchase price.

36           B. Property that qualifies for the credit under this section  
37 includes that portion of a structure, building, installation, excavation,  
38 machine, equipment or device and any attachment or addition to or  
39 reconstruction, replacement or improvement of that property that is  
40 directly used, constructed or installed in this state for the purpose of  
41 meeting or exceeding rules or regulations adopted by the United States  
42 environmental protection agency, the department of environmental quality  
43 or a political subdivision of this state to prevent, monitor, control or  
44 reduce air, water or land pollution that results from the taxpayer's

1 direct operating activities in conducting a trade or business in this  
2 state.

3 C. The credit allowed pursuant to this section does not apply to:

4 1. The purchase of any personal property that is attached to a  
5 motor vehicle.

6 2. Any property that has a substantial use for a purpose other than  
7 the purposes described in subsection B.

8 3. Any portion of pollution control property that is included as a  
9 standard and integral part of another property.

10 D. Amounts that qualify for a credit under this section must be  
11 includible in the taxpayer's adjusted basis for the property. The  
12 adjusted basis of any property with respect to which the taxpayer has  
13 claimed a credit shall be reduced by the amount of credit claimed with  
14 respect to that asset. This credit does not affect the deductibility for  
15 depreciation or amortization of the remaining adjusted basis of the asset.

16 E. Co-owners of a business, including corporate partners in a  
17 partnership, may each claim only the pro rata share of the credit allowed  
18 under this section based on the ownership interest. **PARTNERS IN A  
19 PARTNERSHIP THAT IS NOT A CORPORATION MAY NOT CLAIM A SHARE OF THE CREDIT.**  
20 The total of the credits allowed all such owners may not exceed the amount  
21 that would have been allowed a sole owner.

22 F. If the allowable tax credit exceeds the taxes otherwise due  
23 under this title on the claimant's income, or if there are no taxes due  
24 under this title, the taxpayer may carry the amount of the claim not used  
25 to offset the taxes under this title forward for not more than five  
26 taxable years' income tax liability.

27 G. The maximum credit that a taxpayer may claim under this section  
28 is ~~five hundred thousand dollars~~ **\$500,000** in a taxable year.

29 Sec. 19. Section 43-1311, Arizona Revised Statutes, is amended to  
30 read:

31 **43-1311. Tax imposed on estates and trusts; rates; annual**  
32 **adjustment**

33 A. Except for trusts that are taxable as partnerships or  
34 corporations under the internal revenue code, the income of estates or of  
35 any kind of property held in trust is subject only to the income tax  
36 imposed by subsection B of this section.

37 B. There shall be levied, collected and paid for each taxable year  
38 on the entire taxable income of every resident trust of this state and on  
39 the entire taxable income of nonresident trust that is derived from  
40 sources within this state taxes determined in the following manner:

41 1. For taxable years beginning from and after December 31, 2020  
42 through December 31, 2021:



1	<u>If taxable income is:</u>	<u>The tax is:</u>
2	\$0 – \$27,272	2.59% of taxable income
3	\$27,273 – \$54,544	\$686, plus 3.34% of the amount
4		over \$27,272
5	\$54,545 – \$163,632	\$1,571, plus 4.17% of the
6		amount over \$54,544
7	\$163,633 and over	\$5,991, plus 4.50% of the amount
8		over \$163,632

9 2. Subject to subsection C of this section, for taxable years  
 10 beginning from and after December 31, 2021 through December 31 of the year  
 11 in which notice is provided to the department pursuant to section 43-244,  
 12 subsection A or subsection B, paragraph 1:

13	<u>If taxable income is:</u>	<u>The tax is:</u>
14	\$0 – \$27,272	2.55% of taxable income
15	\$27,273 and over	\$695, plus 2.98% of the amount
16		over \$27,272

17 3. Subject to subsection C of this section, for taxable years  
 18 beginning from and after December 31 of the year in which notice is  
 19 provided to the department pursuant to section 43-244, subsection A or  
 20 subsection B, paragraph 1 through December 31 of the year in which notice  
 21 is provided to the department pursuant to section 43-244, subsection B,  
 22 paragraph 2:

23	<u>If taxable income is:</u>	<u>The tax is:</u>
24	\$0 – \$27,272	2.53% of taxable income
25	\$27,273 and over	\$690, plus 2.75% of the amount
26		over \$27,272

27 4. For taxable years beginning from and after December 31 of the  
 28 year in which notice is provided to the department pursuant to section  
 29 43-244, subsection B, paragraph 2, the tax is 2.5% of taxable income.

30 C. For each taxable year beginning from and after December 31,  
 31 ~~2020~~ 2021, the department shall adjust the income dollar amount for each  
 32 rate bracket prescribed by subsection B, paragraphs 2 and 3 of this  
 33 section, as applicable, according to the average annual change in the  
 34 metropolitan Phoenix consumer price index published by the United States  
 35 department of labor, bureau of labor statistics. The revised dollar  
 36 amounts shall be raised to the nearest whole dollar. The income dollar  
 37 amounts for each rate bracket may not be revised below the amounts  
 38 prescribed in the prior taxable year.

39 Sec. 20. Title 43, chapter 13, article 6, Arizona Revised Statutes,  
 40 is amended by adding section 43-1382, to read:

41 43-1382. Credit for entity-level income tax

42 A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2021, A  
 43 CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR A TAXPAYER  
 44 WHO IS A PARTNER IN A PARTNERSHIP OR A SHAREHOLDER OF AN S CORPORATION  
 45 THAT ELECTS TO PAY THE TAX UNDER SECTION 43-1014.

1 B. THE AMOUNT OF THE TAX PAID BY THE PARTNERSHIP OR S CORPORATION  
2 UNDER SECTION 43-1014 THAT IS ATTRIBUTABLE TO THE PARTNER'S OR  
3 SHAREHOLDER'S SHARE OF INCOME TAXABLE IN THIS STATE.

4 C. THE ESTATE OR TRUST AND ITS NONCORPORATE BENEFICIARIES SHALL  
5 APPORTION THE CREDIT UNDER THIS SECTION IN THE SAME PROPORTION AS THEIR  
6 RESPECTIVE SHARES OF THE FEDERAL DISTRIBUTABLE NET INCOME OF THE ESTATE OR  
7 TRUST FROM THE PARTNERSHIP OR S CORPORATION. THE NONCORPORATE  
8 BENEFICIARIES SHALL TREAT THEIR SHARE OF THE CREDIT UNDER THIS SECTION AS  
9 A CREDIT UNDER SECTION 43-1077.

10 D. IF THE ALLOWABLE CREDIT EXCEEDS THE TAXES DUE UNDER THIS TITLE  
11 ON THE CLAIMANT'S INCOME, OR IF THERE ARE NOT TAXES DUE UNDER THIS TITLE,  
12 THE AMOUNT OF THE CLAIM NOT USED TO OFFSET TAXES DUE UNDER THIS TITLE MAY  
13 BE CARRIED FORWARD FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE YEARS AS A  
14 CREDIT AGAINST SUBSEQUENT YEARS' INCOME TAX LIABILITY.

15 Sec. 21. Additions to Arizona gross income; corporations;  
16 depreciation, amortization and adjusted bases for  
17 qualified environmental technology facilities

18 In computing Arizona taxable income for a corporation pursuant to  
19 section 43-1121, Arizona Revised Statutes, as amended by this act, the  
20 following amounts shall be added to Arizona gross income as long as  
21 applicable:

22 1. The amount by which the depreciation or amortization computed  
23 under the internal revenue code with respect to property for which a  
24 credit was taken under section 43-1169, Arizona Revised Statutes, as  
25 repealed by this act, exceeds the amount of depreciation or amortization  
26 computed pursuant to the internal revenue code on the Arizona adjusted  
27 basis of the property.

28 2. The amount by which the adjusted basis computed under the  
29 internal revenue code with respect to property for which a credit was  
30 claimed under section 43-1169, Arizona Revised Statutes, as repealed by  
31 this act, and that is sold or otherwise disposed of during the taxable  
32 year exceeds the adjusted basis of the property computed under section  
33 43-1169, Arizona Revised Statutes, as repealed by this act.

34 Sec. 22. Retroactivity

35 A. Section 43-1311, Arizona Revised Statutes, as amended by this  
36 act, applies retroactively to taxable years beginning from and after  
37 December 31, 2020.

38 B. Section 43-1382, Arizona Revised Statutes, as added by this act,  
39 applies retroactively to taxable years beginning from and after December  
40 31, 2021.

41 Sec. 23. Saving clause

42 The repeal of the income tax credits by this act does not affect the  
43 continuing validity of any amount of the credit carried forward from  
44 previous taxable years for application against subsequent tax liabilities  
45 as allowed by prior law.