

REFERENCE TITLE: short-term rentals; property classification

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

## **HB 2316**

Introduced by  
Representatives Gillette; Biasiucci, Carbone, Hendrix; Senator Angius

AN ACT

AMENDING SECTIONS 42-5075, 42-5076, 42-12001, 42-12054 AND 42-12056,  
ARIZONA REVISED STATUTES; RELATING TO PROPERTY TAX.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

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

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

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

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

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

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

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

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

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

1 deduction, before beginning work under the contract, the prime contractor  
2 must obtain a letter of qualification from the department of revenue. This  
3 paragraph shall apply for ten full consecutive calendar or fiscal years  
4 after the start of initial construction.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 of this paragraph, "research infrastructure" has the same meaning  
2 prescribed in section 15-1670.

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

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

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

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

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

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

35 (a) "Mixed waste processing facility" means a solid waste facility  
36 that is owned, operated or used for the treatment, processing or disposal  
37 of solid waste, recyclable solid waste, very small quantity generator  
38 waste or household hazardous waste. For the purposes of this subdivision,  
39 "very small quantity generator waste", "household hazardous waste" and  
40 "solid waste facility" have the same meanings prescribed in section  
41 49-701, except that solid waste facility does include a site that stores,  
42 treats or processes paper, glass, wood, cardboard, household textiles,  
43 scrap metal, plastic, vegetative waste, aluminum, steel or other  
44 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" means usable energy, including electricity,  
7 fuels, gas and heat, produced through the conversion of energy provided by  
8 sunlight, water, wind, geothermal, heat, biomass, biogas, landfill gas or  
9 another nonfossil renewable resource.

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

15 C. Entitlement to the deduction pursuant to subsection B, paragraph  
16 7 of this section is subject to the following provisions:

17 1. A prime contractor may establish entitlement to the deduction by  
18 both:

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

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

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

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

41 4. If a prime contractor is entitled to a deduction by complying  
42 with paragraph 1 of this subsection, the department may require the  
43 purchaser who caused the execution of the certificate to establish the  
44 accuracy and completeness of the information required to be contained in

1 the certificate that would entitle the prime contractor to the deduction.  
 2 If the purchaser cannot establish the accuracy and completeness of the  
 3 information, the purchaser is liable in an amount equal to any tax,  
 4 penalty and interest that the prime contractor would have been required to  
 5 pay under article 1 of this chapter if the prime contractor had not  
 6 complied with paragraph 1 of this subsection. Payment of the amount under  
 7 this paragraph exempts the purchaser from liability for any tax imposed  
 8 under article 4 of this chapter. The amount shall be treated as a  
 9 transaction privilege tax to the purchaser and as tax revenues collected  
 10 from the prime contractor in order to designate the distribution base for  
 11 purposes of section 42-5029.

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

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

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

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



1 H. For the purposes of section 42-5032.02, from and after  
2 September 30, 2013, the department shall separately account for revenues  
3 reported and collected under the prime contracting classification from any  
4 prime contractor engaged in the construction of any buildings and  
5 associated improvements that are for the benefit of a manufacturing  
6 facility. For the purposes of this subsection, "associated improvements"  
7 and "manufacturing facility" have the same meanings prescribed in section  
8 42-5032.02.

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

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

26 K. The portion of gross proceeds of sales or gross income  
27 attributable to the actual direct costs of providing architectural or  
28 engineering services that are incorporated in a contract is not subject to  
29 tax under this section. For the purposes of this subsection, "direct  
30 costs" means the portion of the actual costs that are directly expended in  
31 providing architectural or engineering services.

32 L. Operating a landfill or a solid waste disposal facility is not  
33 subject to taxation under this section, including filling, compacting and  
34 creating vehicle access to and from cell sites within the landfill.  
35 Constructing roads to a landfill or solid waste disposal facility and  
36 constructing cells within a landfill or solid waste disposal facility may  
37 be deemed prime contracting under this section.

38 M. The following apply in determining the taxable situs of sales of  
39 manufactured buildings:

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

43 2. For sales in this state where the manufactured building dealer  
44 does not contract to deliver the building to a setup site or does not

1 perform the setup, the taxable situs is the location of the dealership  
2 where the building is delivered to the buyer.

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

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

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

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

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

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

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

33 (ii) The amount of an adjustment, if any, to the guaranteed maximum  
34 price as set in the contract for modification work. For the purposes of  
35 this item, "guaranteed maximum price" means the amount guaranteed to be  
36 the maximum amount due to a prime contractor for the performance of all  
37 modification work for the project.

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

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

1 (e) Inspection to determine the dates of substantial completion or  
2 final completion.

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

9 (g) Preparation of status reports after modification work has begun  
10 detailing the progress of work performed, including preparation of any of  
11 the following:

12 (i) Master schedule updates.

13 (ii) Modification work cash flow projection updates.

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

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

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

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

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

23 (j) Administration or supervision of any other activities for which  
24 a prime contractor receives a certificate for payment or certificate for  
25 final payment based on the progress of modification work performed on the  
26 project.

27 2. "Design phase services" means services for developing and  
28 completing a design for a project that are not construction phase  
29 services, including the following:

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

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

36 (c) Preparing drawings and specifications for architectural program  
37 documents, schematic design documents, design development documents,  
38 modification work documents or documents that identify the scope of or  
39 materials for the project.

40 (d) Preparing an initial schedule for the project, excluding the  
41 preparation of updates to the master schedule after modification work has  
42 begun.

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

4 (i) Labor, materials, machinery and equipment, tools, water, heat,  
5 utilities, transportation and other facilities and services used in the  
6 execution and completion of modification work, regardless of whether they  
7 are temporary or permanent or whether they are incorporated in the  
8 modifications.

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

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

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

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

19 (vi) Any bond and insurance premiums.

20 (vii) Any applicable taxes.

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

23 (f) Reviewing and evaluating cost estimates and project documents  
24 to prepare recommendations on site use, site improvements, selection of  
25 materials, building systems and equipment, modification feasibility,  
26 availability of materials and labor, local modification activity as  
27 related to schedules and time requirements for modification work.

28 (g) Preparing the plan and procedures for selection of  
29 subcontractors, including any prequalification of subcontractor  
30 candidates.

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

36 0. The gross proceeds of sales or gross income derived from a  
37 contract with the owner of real property or improvements to real property  
38 for the maintenance, repair, replacement or alteration of existing  
39 property is not subject to tax under this section if the contract does not  
40 include modification activities, except as specified in this subsection.  
41 The gross proceeds of sales or gross income derived from a de minimis  
42 amount of modification activity does not subject the contract or any part  
43 of the contract to tax under this section. For the purposes of this  
44 subsection:

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

4           2. Each contract is independent of any other contract, except that  
5 any change order that directly relates to the scope of work of the  
6 original contract shall be treated the same as the original contract under  
7 this chapter, regardless of the amount of modification activities included  
8 in the change order. If a change order does not directly relate to the  
9 scope of work of the original contract, the change order shall be treated  
10 as a new contract, with the tax treatment of any subsequent change order  
11 to follow the tax treatment of the contract to which the scope of work of  
12 the subsequent change order directly relates.

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

21           1. Community facilities districts, fire districts, county  
22 television improvement districts, community park maintenance districts,  
23 cotton pest control districts, hospital districts, pest abatement  
24 districts, health service districts, agricultural improvement districts,  
25 county free library districts, county jail districts, county stadium  
26 districts, special health care districts, public health services  
27 districts, theme park districts or revitalization districts.

28           2. Any special taxing district not specified in paragraph 1 of this  
29 subsection if the district does not substantially engage in the  
30 modification, maintenance, repair, replacement or alteration of surface or  
31 subsurface improvements to land.

32           Q. Notwithstanding subsection R, paragraph 10 of this section, a  
33 person owning real property who enters into a contract for sale of the  
34 real property, who is responsible to the new owner of the property for  
35 modifications made to the property in the period subsequent to the  
36 transfer of title and who receives a consideration for the modifications  
37 is considered a prime contractor solely for purposes of taxing the gross  
38 proceeds of sale or gross income received for the modifications made  
39 subsequent to the transfer of title. The original owner's gross proceeds  
40 of sale or gross income received for the modifications shall be determined  
41 according to the following methodology:

42           1. If any part of the contract for sale of the property specifies  
43 amounts to be paid to the original owner for the modifications to be made  
44 in the period subsequent to the transfer of title, the amounts are

1 included in the original owner's gross proceeds of sale or gross income  
2 under this section. Proceeds from the sale of the property that are  
3 received after transfer of title and that are unrelated to the  
4 modifications made subsequent to the transfer of title are not considered  
5 gross proceeds of sale or gross income from the modifications.

6 2. If the original owner enters into an agreement separate from the  
7 contract for sale of the real property providing for amounts to be paid to  
8 the original owner for the modifications to be made in the period  
9 subsequent to the transfer of title to the property, the amounts are  
10 included in the original owner's gross proceeds of sale or gross income  
11 received for the modifications made subsequent to the transfer of title.

12 3. If the original owner is responsible to the new owner for  
13 modifications made to the property in the period subsequent to the  
14 transfer of title and derives any gross proceeds of sale or gross income  
15 from the project subsequent to the transfer of title other than a delayed  
16 disbursement from escrow unrelated to the modifications, it is presumed  
17 that the amounts are received for the modifications made subsequent to the  
18 transfer of title unless the contrary is established by the owner through  
19 its books, records and papers kept in the regular course of business.

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

22 R. For the purposes of this section:

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

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

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

37 (c) Project elements may not be artificially separated from a  
38 contract to cause a project to qualify as an alteration. The department  
39 has the burden of proof that project elements have been artificially  
40 separated from a contract.

41 (d) If a project for which the owner and the person performing the  
42 work reasonably believed, at the inception of the contract, would be  
43 treated as an alteration under this paragraph and, on completion of the  
44 project, the project exceeded the applicable threshold described in either

1 subdivision (a) or (b) of this paragraph by not more than twenty-five  
2 percent of the applicable threshold for any reason, the work performed  
3 under the contract qualifies as an alteration.

4 (e) A change order that directly relates to the scope of work of  
5 the original contract shall be treated as part of the original contract,  
6 and the contract amount shall include any amount attributable to a change  
7 order that directly relates to the scope of work of the original contract.

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

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

10 3. "Contractor" is synonymous with the term "builder" and means any  
11 person or organization that undertakes to or offers to undertake to, or  
12 purports to have the capacity to undertake to, or submits a bid to, or  
13 does personally or by or through others, modify any building, highway,  
14 road, railroad, excavation, manufactured building or other structure,  
15 project, development or improvement, or to do any part of such a project,  
16 including the erection of scaffolding or other structure or works in  
17 connection with such a project, and includes subcontractors and specialty  
18 contractors. For all purposes of taxation or deduction, this definition  
19 shall govern without regard to whether or not such a contractor is acting  
20 in fulfillment of a contract.

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

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

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

26 (b) Supervises, performs or coordinates the excavation and  
27 completion of site improvements or the setup of a manufactured building,  
28 including the contracting, if any, with any subcontractor or specialty  
29 contractor for the completion of the contract.

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

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

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

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

40 7. "Modify" means to make a modification or cause a modification to  
41 be made.

42 8. "Owner" means the person that holds title to the real property  
43 or improvements to real property that is the subject of the work, as well  
44 as an agent of the title holder and any person with the authority to

1 perform or authorize work on the real property or improvements, including  
2 a tenant and a property manager. For the purposes of subsection O of this  
3 section, a person who is hired by a general contractor that is hired by an  
4 owner, or a subcontractor of a general contractor that is hired by an  
5 owner, is considered to be hired by the owner.

6 9. "Prime contracting" means engaging in business as a prime  
7 contractor.

8 10. "Prime contractor" means a contractor who supervises, performs  
9 or coordinates the modification of any building, highway, road, railroad,  
10 excavation, manufactured building or other structure, project, development  
11 or improvement, including the contracting, if any, with any subcontractors  
12 or specialty contractors and who is responsible for the completion of the  
13 contract. Except as provided in subsections E and Q of this section, a  
14 person who owns real property, who engages one or more contractors to  
15 modify that real property and who does not itself modify that real  
16 property is not a prime contractor within the meaning of this paragraph  
17 regardless of the existence of a contract for sale or the subsequent sale  
18 of that real property.

19 11. "Replacement" means the removal from service of one component  
20 or system of existing property or tangible personal property installed in  
21 existing property, including machinery or equipment, and the installation  
22 of a new component or system or new tangible personal property, including  
23 machinery or equipment, that provides the same, a similar or an upgraded  
24 design or functionality, regardless of the contract amount and regardless  
25 of whether the existing component or system or existing tangible personal  
26 property is physically removed from the existing property.

27 12. "Sale of a used manufactured building" does not include a lease  
28 of a used manufactured building.

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

31 42-5076. Online lodging marketplace classification:  
32 definitions

33 A. The online lodging marketplace classification is comprised of  
34 the business of operating an online lodging marketplace.

35 B. The tax base for the online lodging marketplace classification  
36 is the gross proceeds of sales or gross income derived from the business  
37 measured by the total amount charged for an online transient lodging  
38 transaction by the online lodging operator.

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



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

6 E. For the purposes of this section:

7 1. "Online lodging marketplace" means a person that provides a  
8 digital platform for compensation through which an unaffiliated third  
9 party offers to rent lodging accommodations in this state to an occupant,  
10 including a transient, as defined in section 42-5070, and the  
11 accommodations are ~~not~~ classified for property tax purposes under section  
12 42-12001, [PARAGRAPH 15 OR SECTION 42-12003 OR 42-12004](#). For the purposes  
13 of this paragraph:

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

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

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

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

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

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

36 [42-12001. Class one property](#)

37 For ~~THE~~ purposes of taxation, class one is established consisting of  
38 the following subclasses:

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

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

1           3. Real and personal property of gas distribution companies,  
2 electric transmission companies, electric distribution companies,  
3 combination gas and electric transmission and distribution companies, and  
4 companies engaged in the generation of electricity that are valued at full  
5 cash value pursuant to section 42-14151.

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

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

11           6. Real and personal property of water, sewer and wastewater  
12 utility companies that are valued at full cash value pursuant to section  
13 42-14151.

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

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

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

21           10. All property, both real and personal, of manufacturers,  
22 assemblers or fabricators, other than property that is specifically  
23 included in another class described in this article, that is valued under  
24 this title.

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

29           12. Real property and improvements that are devoted to any other  
30 commercial or industrial use, other than property that is specifically  
31 included in another class described in this article, and that are valued  
32 at full cash value.

33           13. Personal property that is devoted to any other commercial or  
34 industrial use, other than property that is specifically included in  
35 another class described in this article, and that is valued at full cash  
36 value.

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

39           15. REAL AND PERSONAL PROPERTY AND IMPROVEMENTS THAT ARE PRIMARILY  
40 LEASED OR RENTED TO LODGERS FOR PERIODS OF LESS THAN THIRTY DAYS AND THAT  
41 ARE VALUED AT FULL CASH VALUE, EXCEPT FOR:

42           (a) PROPERTY THAT IS OCCUPIED BY THE OWNER OF THE PROPERTY AS THE  
43 OWNER'S PRIMARY RESIDENCE AND INCLUDED IN CLASS THREE.

1 (b) PROPERTY FOR RESIDENTIAL PURPOSES THAT IS LEASED OR RENTED AND  
2 INCLUDED IN CLASS FOUR.

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

5 42-12054. Change in classification of owner-occupied  
6 residence

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

16 B. If a person purchases or converts property that is listed as  
17 class one pursuant to section 42-12001, paragraph 12, ~~OR~~ 13 OR 15, class  
18 two or class four pursuant to article 1 of this chapter and the property  
19 is occupied by a member of the owner's immediate family as described in  
20 section 42-12053, the person may have the classification reviewed for  
21 change to class three from the date of occupancy and may appeal the  
22 decision resulting from the review in the same manner as provided by law  
23 for review of a valuation for ad valorem property taxes and appeal from  
24 that review.

25 C. If a person makes such a conversion or occupancy or appeals the  
26 classification after the county assessor has closed the rolls, the person  
27 may petition the county board of supervisors to change the classification  
28 and reduce the assessed valuation from the date of conversion or  
29 occupancy.

30 D. The board of supervisors shall entertain the petition in the  
31 same manner as a board of equalization hears a request for reduction in  
32 valuation.

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

37 F. If the board of supervisors finds that the property is in fact  
38 the owner's primary residence and should be listed as class three  
39 property, the board shall change the classification on the roll and fix  
40 the assessed valuation from the date of occupancy. The amount of taxes  
41 that is assessed against the property shall be computed by applying the  
42 current tax rate to the original assessed valuation prorated for the  
43 portion of the tax year before the property was occupied plus the current

1 tax rate applied to the reassessed value of the property prorated for the  
2 balance of the year.

3 G. The board of supervisors shall notify the department, assessor  
4 and county treasurer of the change in classification, the change in  
5 assessed valuation and the amount of tax assessed. The department and the  
6 assessor may appeal any such decision in the same manner as provided in  
7 section 42-16111. The assessor and treasurer shall note the change on  
8 their records, and the treasurer may issue a future tax credit, endorsed  
9 by the board, to the person whose property is liable for the tax. The tax  
10 credit shall be used on the next or several succeeding property tax  
11 assessments that the person may owe thereafter.

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

14 42-12056. Renewable energy systems valuation; definition

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

22 B. For the purposes of this section, "renewable energy systems"  
23 means electric generation systems and electric transmission and  
24 distribution SYSTEMS that ~~is~~ ARE used or useful for ~~the generation,~~  
25 ~~storage, transmission~~ GENERATING, STORING, TRANSMITTING or ~~distribution of~~  
26 DISTRIBUTING electric power, energy or fuel derived from solar, wind or  
27 other nonpetroleum renewable sources, including materials and supplies.