

State of Arizona
Senate
Fifty-third Legislature
First Regular Session
2017

SENATE BILL 1416

AN ACT

AMENDING SECTIONS 41-1525, 42-2003 AND 42-5032.02, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2017, CHAPTER 76, SECTION 11; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2017, CHAPTER 76, SECTION 13; AMENDING SECTION 42-13054, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1074.01, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2014, CHAPTER 168, SECTION 6; AMENDING SECTIONS 43-1083.03 AND 43-1164.04, ARIZONA REVISED STATUTES; AMENDING SECTION 43-1168, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2014, CHAPTER 168, SECTION 10; RELATING TO ARIZONA QUALITY JOBS INCENTIVES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 41-1525, Arizona Revised Statutes, is amended to
3 read:

4 41-1525. Arizona quality jobs incentives; tax credits for new
5 employment; qualifications; definitions

6 A. The owner of a business THAT IS located in this state before
7 July ~~2017~~ 2025 is eligible for income tax credits under section 43-1074 or
8 43-1161 or an insurance premium tax credit under section 20-224.03 for net
9 increases in full-time employees residing in this state and hired in
10 qualified employment positions in this state.

11 B. To qualify under this section, and subject to preapproval by the
12 authority, the business must meet ~~either~~ AT LEAST ONE of the following
13 requirements for each location of the business before it claims a first
14 year tax credit for the location:

15 1. Invest at least five million dollars of capital investment and
16 create at least twenty-five NET new qualified employment positions ~~at a~~
17 ~~location within the exterior boundaries of a city or town that has a~~
18 ~~population of fifty thousand persons or more and that is located in a~~
19 ~~county that has a population of eight hundred thousand persons or more~~
20 THAT PAY COMPENSATION AT LEAST EQUAL TO ONE HUNDRED PERCENT OF THE COUNTY
21 MEDIAN WAGE AS COMPUTED ANNUALLY BY THE AUTHORITY IN AN URBAN LOCATION.

22 2. INVEST AT LEAST TWO MILLION FIVE HUNDRED THOUSAND DOLLARS OF
23 CAPITAL INVESTMENT AND CREATE AT LEAST TWENTY-FIVE NET NEW QUALIFIED
24 EMPLOYMENT POSITIONS THAT PAY COMPENSATION AT LEAST EQUAL TO ONE HUNDRED
25 TWENTY-FIVE PERCENT OF THE COUNTY MEDIAN WAGE AS COMPUTED ANNUALLY BY THE
26 AUTHORITY IN AN URBAN LOCATION.

27 3. INVEST AT LEAST ONE MILLION DOLLARS OF CAPITAL INVESTMENT AND
28 CREATE AT LEAST TWENTY-FIVE NET NEW QUALIFIED EMPLOYMENT POSITIONS THAT
29 PAY COMPENSATION AT LEAST EQUAL TO ONE HUNDRED FIFTY PERCENT OF THE COUNTY
30 MEDIAN WAGE AS COMPUTED ANNUALLY BY THE AUTHORITY IN AN URBAN LOCATION.

31 4. INVEST AT LEAST FIVE HUNDRED THOUSAND DOLLARS OF CAPITAL
32 INVESTMENT AND CREATE AT LEAST TWENTY-FIVE NET NEW QUALIFIED EMPLOYMENT
33 POSITIONS THAT PAY COMPENSATION AT LEAST EQUAL TO TWO HUNDRED PERCENT OF
34 THE COUNTY MEDIAN WAGE AS COMPUTED ANNUALLY BY THE AUTHORITY IN AN URBAN
35 LOCATION.

36 ~~2.~~ 5. Invest at least one million dollars of capital investment
37 and create at least five NET NEW qualified employment positions THAT PAY
38 COMPENSATION AT LEAST EQUAL TO ONE HUNDRED PERCENT OF THE COUNTY MEDIAN
39 WAGE AS COMPUTED ANNUALLY BY THE AUTHORITY in ~~any other~~ A RURAL location.

40 6. INVEST AT LEAST FIVE HUNDRED THOUSAND DOLLARS OF CAPITAL
41 INVESTMENT AND CREATE AT LEAST FIVE NET NEW QUALIFIED POSITIONS THAT PAY
42 COMPENSATION AT LEAST EQUAL TO ONE HUNDRED TWENTY-FIVE PERCENT OF THE
43 COUNTY MEDIAN WAGE AS COMPUTED ANNUALLY BY THE AUTHORITY IN A RURAL
44 LOCATION.

1 7. INVEST AT LEAST ONE HUNDRED THOUSAND DOLLARS OF CAPITAL
2 INVESTMENT AND CREATE AT LEAST FIVE NET NEW QUALIFIED POSITIONS THAT PAY
3 COMPENSATION AT LEAST EQUAL TO ONE HUNDRED FIFTY PERCENT OF THE COUNTY
4 MEDIAN WAGE AS COMPUTED ANNUALLY BY THE AUTHORITY IN A RURAL LOCATION.

5 C. The capital investment and the new qualified employment
6 positions requirements of subsection B of this section must be
7 accomplished within twelve months after the start of the required capital
8 investment. No credit may be claimed until both requirements are met. A
9 business that meets the requirements of subsection B of this section for a
10 location is eligible to claim first year credits for three years beginning
11 with the taxable year in which those requirements are completed.
12 Employees hired at the location before the beginning of the taxable year
13 but during the twelve-month period allowed in this subsection are
14 considered to be new employees for the taxable year in which all of those
15 requirements are completed. The employees that are considered to be new
16 employees for the taxable year under this subsection shall not be included
17 in the average number of full-time employees during the immediately
18 preceding taxable year until the taxable year in which all of the
19 requirements of subsection B of this section are completed. An employee
20 working at a temporary ~~work site~~ WORKSITE in this state while the
21 designated location is under construction is considered to be working at
22 the designated location if all of the following occur:

23 1. The employee is hired after the start of the required investment
24 at the designated location.

25 2. The employee is hired to work at the designated location after
26 it is completed.

27 3. The payroll for the employees destined for the designated
28 location is segregated from other employees.

29 4. The employee is moved to the designated location within thirty
30 days after its completion.

31 D. No more than ten thousand new jobs for all employers qualify for
32 first year credits each year.

33 E. To claim a tax credit, the business must:

34 1. Obtain preapproval from the authority at a time, on a form and
35 in a manner prescribed by the authority. Preapproval shall cover all
36 first year credits intended to be claimed for the designated location and
37 all second and third year credits associated with those first year
38 credits.

39 2. Certify to the department of revenue or the department of
40 insurance, as applicable, on or before the due date of the tax return,
41 including any extensions for the year for which the credit is claimed, in
42 a form prescribed by the department, including electronic media,
43 information that the department may require, including the ownership
44 interests of co-owners of the business if the business is a partnership,

1 limited liability company or an S corporation, and the following
2 information for each employee in the designated location:

- 3 (a) The date of initial employment.
- 4 (b) The number of hours worked during the year.
- 5 (c) Whether the position was full-time.
- 6 (d) The employee's annual compensation.
- 7 (e) The total cost of health insurance for the employee and the
8 cost paid by the employer.
- 9 (f) Other information required by the department.

10 3. Report and certify to the authority the following information,
11 and provide supporting documentation, on a form and in a manner approved
12 by the authority, and as specified in subsection F of this section, for
13 each year in which the taxpayer earned and claimed or used credits or is
14 carrying forward amounts from previously earned and claimed credits:

- 15 (a) The business name and mailing address and any other contact
16 information requested by the authority.
- 17 (b) The physical address of the business location or locations and
18 the number of employees qualified for the credit at each location.
- 19 (c) The average hourly wage and the total amount of compensation
20 paid to employees qualified for the credit and for all employees.
- 21 (d) The total number of qualified employment positions and the
22 amount of income tax or premium tax credits qualified for in the taxable
23 year.
- 24 (e) The estimated amount of tax credits to be used in the taxable
25 year to offset tax liability.
- 26 (f) The estimated amount of tax credits to be available for
27 carryforward in the taxable year and the year in which the credits expire.
- 28 (g) The number of jobs and the amount of credits earned and claimed
29 on the prior year's tax return.
- 30 (h) The amount of credits used to offset tax liabilities on the
31 prior year's tax return.
- 32 (i) The amount of credits available for carryforward as reported on
33 the prior year's tax return and the year the credits expire.
- 34 (j) Capital investment made during the taxable year and the
35 preceding taxable year.
- 36 (k) Other information necessary for the management and reporting of
37 the incentives under this section.

38 4. For any year in which the taxpayer is claiming first year
39 credits, report and certify the following additional information and
40 provide supporting documentation to the authority on a form and in a
41 manner approved by the authority, and as specified in subsection F of this
42 section:

- 43 (a) That the net increase in the number of qualified employment
44 positions for which credit is sought is the least of:

1 (i) The total number of filled qualified employment positions
2 created at the designated location or locations during the taxable year.

3 (ii) The difference between the average number of full-time
4 employees in this state in the current taxable year and the average number
5 of full-time employees in this state during the immediately preceding
6 taxable year.

7 (b) That all employees filling a qualified employment position were
8 employed for at least ninety days during the first taxable year.
9 Employees hired in the last ninety days of the taxable year are excluded
10 for that taxable year and are considered to be new employees in the
11 following taxable year.

12 (c) That none of the employees filling qualified employment
13 positions were employed by the taxpayer during the twelve months before
14 the current date of hire except for those relocating to this state.

15 (d) That all employees for whom second and third year credits are
16 claimed are in qualified employment positions for which first year credits
17 were allowed and claimed by the taxpayer on the original first and second
18 year tax returns.

19 (e) That all employees for whom credits are taken performed their
20 job duties primarily at the designated locations of the business.

21 F. To qualify for first year credits, the report and certification
22 prescribed by subsection E, paragraphs 3 and 4 of this section must be
23 filed with the authority by the earlier of six months after the end of the
24 taxable year in which the qualified employment positions were created or
25 by the date the tax return is filed for the taxable year in which the
26 qualified employment positions were created. To qualify for second year
27 credits, the report and certification prescribed by subsection E,
28 paragraph 3 of this section must be filed with the authority by the
29 earlier of six months after the end of the taxable year or the date the
30 tax return is filed for the taxable year in which the second year credits
31 are allowable. To qualify for third year credits, the report and
32 certification prescribed by subsection E, paragraph 3 of this section must
33 be filed with the authority by the earlier of six months after the end of
34 the taxable year or the date the tax return is filed for the taxable year
35 in which the third year credits are allowable.

36 G. Any information submitted to the authority under subsection E,
37 paragraph 3, subdivisions (e) through (j) of this section is exempt from
38 title 39, chapter 1, article 2 and considered to be confidential and is
39 not subject to disclosure except:

40 1. To the extent that the person or organization that provided the
41 information consents to the disclosure.

42 2. To the department of revenue for use in tax administration.

43 H. Documents filed with the authority, the department of insurance
44 and the department of revenue under subsection E of this section shall
45 contain either a sworn statement or certification, signed by an officer of

1 the company under penalty of perjury, that the information contained is
2 true and correct according to the best belief and knowledge of the person
3 submitting the information after a reasonable investigation of the facts.
4 If the document contains information that is materially false, the
5 taxpayer is ineligible for the tax credits described under subsection A of
6 this section and is subject to recovery of the amount of tax credits
7 allowed in preceding taxable years based on the false information, plus
8 penalties and interest.

9 I. The authority may make site visits to a taxpayer's facilities if
10 it is necessary to further document or clarify reported information. The
11 taxpayer must freely provide the access.

12 J. The authority by rule shall prescribe preapproval requirements
13 and additional reporting requirements for taxpayers who claim tax credits
14 pursuant to this section.

15 K. On or before September 30 of each year, the authority shall
16 transmit a report to the governor, the president of the senate, the
17 speaker of the house of representatives and the chairpersons of the senate
18 finance committee and the house of representatives ways and means
19 committee and provide a copy of the report to the secretary of state. The
20 report shall include the following information:

21 1. The business names, locations, number of employees and amount of
22 compensation paid to employees qualifying for income tax credits as
23 reported to the authority.

24 2. The amount of capital investment, made during the preceding
25 fiscal year and cumulatively.

26 3. The total amount of income tax credits allowed for the preceding
27 taxable year and the number of qualified employment positions for which
28 credits were claimed pursuant to sections 43-1074 and 43-1161.

29 L. For the purposes of this section:

30 1. "Capital investment" means an expenditure to acquire, lease or
31 improve property that is used in operating a business, including:

32 (a) Land, buildings, machinery and fixtures.

33 (b) For taxable years beginning from and after June 30, 2011,
34 equipment.

35 2. "Designated location" means the location at which the required
36 capital investment is made under subsection B of this section.

37 3. "Location" means a single parcel or contiguous parcels of owned
38 or leased land in this state, the structures and personal property
39 contained on the land or any part of the structures occupied by the owner.
40 Parcels that are separated only by a public thoroughfare or right-of-way
41 are considered to be contiguous but ~~parcels that are in locations~~
42 ~~respectively described by subsection B, paragraphs 1 and 2 of this section~~
43 ~~are not considered to be contiguous~~ A SINGLE CONTIGUOUS PARCEL THAT IS
44 LOCATED IN BOTH AN URBAN LOCATION AND A RURAL LOCATION IS CONSIDERED TO BE
45 A CONTIGUOUS URBAN LOCATION.

1 4. "Qualified employment position" means employment that meets the
2 following requirements:

3 (a) The position consists of at least one thousand seven hundred
4 fifty hours per year of full-time permanent employment.

5 (b) The job duties are performed primarily at the location or
6 locations of the business in this state.

7 (c) The employment provides health insurance coverage for the
8 employee for which the employer pays at least sixty-five ~~per cent~~ PERCENT
9 of the premium or membership cost. If the business is self-insured, the
10 employer pays at least sixty-five ~~per cent~~ PERCENT of a predetermined
11 fixed cost per employee for an insurance program that is payable whether
12 or not the employee has filed claims.

13 (d) The employer pays compensation at least equal to the ~~median~~
14 ~~wage by county as computed annually by the authority~~ WAGE THRESHOLD AS
15 DESCRIBED IN SUBSECTION B OF THIS SECTION.

16 5. "RURAL LOCATION" MEANS A LOCATION THAT IS WITHIN THE BOUNDARIES
17 OF TRIBAL LANDS OR A CITY OR TOWN WITH A POPULATION OF LESS THAN FIFTY
18 THOUSAND PERSONS OR A COUNTY WITH A POPULATION OF LESS THAN EIGHT HUNDRED
19 THOUSAND PERSONS.

20 6. "URBAN LOCATION" MEANS A LOCATION THAT IS WITHIN THE EXTERIOR
21 BOUNDARIES OF A CITY OR TOWN THAT HAS A POPULATION OF FIFTY THOUSAND
22 PERSONS OR MORE AND THAT IS LOCATED IN A COUNTY THAT HAS A POPULATION OF
23 EIGHT HUNDRED THOUSAND PERSONS OR MORE.

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

26 42-2003. Authorized disclosure of confidential information

27 A. Confidential information relating to:

28 1. A taxpayer may be disclosed to the taxpayer, its successor in
29 interest or a designee of the taxpayer who is authorized in writing by the
30 taxpayer. A principal corporate officer of a parent corporation may
31 execute a written authorization for a controlled subsidiary.

32 2. A corporate taxpayer may be disclosed to any principal officer,
33 any person designated by a principal officer or any person designated in a
34 resolution by the corporate board of directors or other similar governing
35 body.

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

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

44 5. A trust may be disclosed to the trustee or trustees, jointly or
45 separately, and to the grantor or any beneficiary of the trust if the

1 department finds that the grantor or beneficiary has a material interest
2 that will be affected by the confidential information.

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

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

8 B. Confidential information may be disclosed to:

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

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

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

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

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

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

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

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

42 (d) An agency, official or organization of a foreign country with
43 responsibilities that are comparable to those listed in subdivision (a),
44 (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:

17 (a) Regarding income tax or withholding tax.

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

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

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

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

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

30 (a) Qualifying renewable energy operations for the tax incentives
31 under sections 42-12006, 43-1083.01 and 43-1164.01.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

36 G. If an organization is exempt from this state's income tax as
37 provided in section 43-1201 for any taxable year, the name and address of
38 the organization and the application filed by the organization on which
39 the department made its determination for exemption together with any
40 papers submitted in support of the application and any letter or document
41 issued by the department concerning the application are open to public
42 inspection.

43 H. Confidential information relating to transaction privilege tax,
44 use tax, severance tax, jet fuel excise and use tax and any other tax
45 collected by the department on behalf of any jurisdiction may be disclosed

1 to any county, city or town tax official if the information relates to a
2 taxpayer who is or may be taxable by a county, city or town or who may be
3 subject to audit by the department pursuant to section 42-6002. Any
4 taxpayer information released by the department to the county, city or
5 town:

6 1. May only be used for internal purposes, including audits.

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

14 I. The department may disclose statistical information gathered
15 from confidential information if it does not disclose confidential
16 information attributable to any one taxpayer. The department may disclose
17 statistical information gathered from confidential information, even if it
18 discloses confidential information attributable to a taxpayer, to:

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

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

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

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

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

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

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

44 O. This section does not prohibit the disclosure by the department
45 of any information or documents submitted to the department by a bingo

1 licensee. Before disclosing the information the department shall obtain
2 the name and address of the person requesting the information.

3 P. If the department is required or permitted to disclose
4 confidential information, it may charge the person or agency requesting
5 the information for the reasonable cost of its services.

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

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

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

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

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

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

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

32 U. For proceedings before the department, the office of
33 administrative hearings, the board of tax appeals or any state or federal
34 court involving penalties that were assessed against a return preparer, an
35 electronic return preparer or a payroll service company pursuant to
36 section 42-1103.02, 42-1125.01 or 43-419, confidential information may be
37 disclosed only before the judge or administrative law judge adjudicating
38 the proceeding, the parties to the proceeding and the parties'
39 representatives in the proceeding prior to its introduction into evidence
40 in the proceeding. The confidential information may be introduced as
41 evidence in the proceeding only if the taxpayer's name, the names of any
42 dependents listed on the return, all social security numbers, the
43 taxpayer's address, the taxpayer's signature and any attachments
44 containing any of the foregoing information are redacted and if either:

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

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

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

10 V. The department and attorney general may share the information
11 specified in subsection T of this section with any of the following:

12 1. Federal, state or local agencies for the purposes of enforcement
13 of corresponding laws of other states.

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

20 W. The department may provide the name and address of qualifying
21 hospitals and qualifying health care organizations, as defined in section
22 42-5001, to a business classified and reporting transaction privilege tax
23 under the utilities classification.

24 X. The department may disclose to an official of any city, town or
25 county in a current agreement or considering a prospective agreement with
26 the department as described in section 42-5032.02, subsection ~~F~~ G any
27 information relating to amounts subject to distribution required by
28 section 42-5032.02. Information disclosed by the department under this
29 subsection:

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

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

38 Y. Notwithstanding any other provision of this section, the
39 department may not disclose information provided by an online lodging
40 marketplace, as defined in section 42-5076, without the written consent of
41 the online lodging marketplace, and the information may be disclosed only
42 pursuant to subsection A, paragraphs 1 through 6, subsection B, paragraphs
43 1, 2, 7 and 8 and subsections C and D of this section. Such information:

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

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

3 Sec. 3. Section 42-5032.02, Arizona Revised Statutes, is amended to
4 read:

5 42-5032.02. Distribution of revenues for city, town or county
6 infrastructure improvements related to
7 manufacturing facilities; definitions

8 A. Subject to subsection B of this section, from and after
9 September 30, 2013 through September 30, 2023, each month the state
10 treasurer shall pay a city, town or county the amount determined under
11 subsection C of this section for the purpose of funding up to eighty ~~per~~
12 ~~cent~~ PERCENT of the cost of public infrastructure improvements for the
13 benefit of a manufacturing facility.

14 B. The state treasurer shall not make any payments under subsection
15 C of this section until both of the following apply:

16 1. ~~Twenty-five per cent~~ TEN PERCENT of the QUALIFYING capital
17 investment that is certified under subsection D of this section and that
18 constitutes construction phase services, as defined in section 42-5075,
19 has been made by the manufacturing facility.

20 2. From and after June 30, 2014.

21 C. The amount to be paid to a city, town or county under subsection
22 A of this section is the total amount of state transaction privilege tax
23 revenues collected under section 42-5010, subsection A from persons
24 conducting business under section 42-5075 derived from contracts to
25 construct buildings and associated improvements for the benefit of a
26 manufacturing facility. The total amount paid to all cities, towns and
27 counties under this subsection shall not exceed a maximum of fifty million
28 dollars.

29 D. ~~Before~~ WITHIN ONE HUNDRED EIGHTY DAYS AFTER the commencement of
30 the construction of buildings and associated improvements for the benefit
31 of a manufacturing facility that will require a city, town or county to
32 make infrastructure improvements, the manufacturing facility shall file a
33 sworn certification with the Arizona commerce authority, and submit a
34 copy of this sworn certification to the applicable city, town or
35 county, that the manufacturing facility agrees to either:

36 1. Make at least five hundred million dollars in capital investment
37 if the manufacturing facility is located in a county that has a population
38 of eight hundred thousand persons or more.

39 2. Make at least fifty million dollars in capital investment if the
40 manufacturing facility is located in a county that has a population of
41 less than eight hundred thousand persons.

42 E. The certification under subsection D of this section shall
43 contain a sworn statement or certification, signed by an officer of the
44 manufacturing facility under penalty of perjury, that the information
45 contained is true and correct according to the best belief and knowledge

1 of the person submitting the information ~~to the department~~ after a
2 reasonable investigation of the facts.

3 F. BEFORE SUBMITTING THE CERTIFICATION TO THE ARIZONA COMMERCE
4 AUTHORITY, THE MANUFACTURING FACILITY AND THE CITY, TOWN OR COUNTY MUST
5 ENTER INTO A WRITTEN AGREEMENT THAT:

6 1. IDENTIFIES AND STATES THE COST OF THE PUBLIC INFRASTRUCTURE
7 IMPROVEMENTS THAT WILL BE CONSTRUCTED.

8 2. IDENTIFIES THE SOURCES OF MONIES, INCLUDING MONIES RECEIVED
9 PURSUANT TO THIS SECTION, THAT WILL BE USED TO PAY FOR THE PUBLIC
10 INFRASTRUCTURE IMPROVEMENTS.

11 ~~F.~~ G. On receipt of ~~a~~ THE sworn certification from a
12 manufacturing facility pursuant to subsection D of this section ~~and before~~
13 ~~the commencement of the construction of buildings and associated~~
14 ~~improvements for the benefit of a manufacturing facility that will require~~
15 ~~a city, town or county to make infrastructure improvements~~, the city, town
16 or county shall enter into a written agreement with the department. This
17 agreement and any amendments or changes to the agreement shall:

18 1. State the cost of the public infrastructure improvements and
19 separately identify the particular improvements that will be made.

20 2. State that the monies received under this section will be used
21 exclusively to pay for public infrastructure improvements that are
22 necessary to support the activities of the manufacturing facility.

23 ~~3. State that the city, town or county will pay a minimum of twenty~~
24 ~~per cent of the cost of the public infrastructure improvements with its~~
25 ~~own monies or with monies from the manufacturing facility.~~

26 3. STATE THAT THE CITY, TOWN OR COUNTY WILL COMMIT ALL OF ITS
27 PORTION OF THE REVENUE RECEIVED PURSUANT TO SECTION 42-5029, SUBSECTION D
28 DERIVED FROM CONTRACTS SUBJECT TO SECTION 42-5075 FOR THE CONSTRUCTION OF
29 BUILDINGS AND ASSOCIATED IMPROVEMENTS FOR THE BENEFIT OF THE MANUFACTURING
30 FACILITY FOR PUBLIC INFRASTRUCTURE IMPROVEMENTS THAT BENEFIT THE
31 MANUFACTURING FACILITY.

32 4. State that the city, town or county will immediately notify the
33 department when monies received under this section exceed eighty ~~per cent~~
34 PERCENT of the cost of the infrastructure improvements and will return the
35 amount of the excess to the state treasurer for deposit ~~to~~ IN the state
36 general fund.

37 5. Stipulate the actual amount of the construction funding that
38 will be derived from sources other than the state.

39 6. Identify the persons who will be prime contractors on the
40 construction of buildings and associated improvements for the benefit of a
41 manufacturing facility and state that each prime contractor has been
42 notified as to which portion of the contractor's income shall be
43 separately identified to the department pursuant to section 42-5075,
44 subsection H.

1 7. State that the city, town or county agrees that any amounts paid
2 by the department to a prime contractor as identified under paragraph 6 of
3 this subsection resulting from an audit adjustment or claim for credit or
4 refund of taxes described in subsection C of this section shall be
5 recovered by the department from the city, town or county by reducing the
6 amount paid to the city, town or county under section 42-5029 from monies
7 designated as distribution base in the month next succeeding the month in
8 which the adjustment or claim is paid.

9 8. State that the city, town or county agrees that the department
10 will use the amounts subject to any distribution required under subsection
11 A of this section in calculating the maximum amount set by subsection C of
12 this section.

13 9. State that the city, town or county agrees that if, on
14 notification by the department, the state treasurer ceases payments
15 because of the condition described in subsection ~~G~~ H of this section, the
16 city, town or county has no claim to additional payments if the department
17 subsequently pays amounts to a prime contractor identified in an agreement
18 with any city, town or county, as described in paragraph 6 of this
19 subsection, due to an audit adjustment or claim for credit or refund of
20 taxes described in subsection C of this section.

21 10. Provide any other information deemed necessary by the
22 department.

23 ~~G~~ H. On notification by the department, the state treasurer shall
24 cease payments under subsection A of this section if either of the
25 following occurs:

26 1. ~~A~~ THE city, town or county has received monies that meet or
27 exceed eighty ~~per cent~~ PERCENT of the cost of the public infrastructure
28 improvements that are necessary to support the activities related to the
29 manufacturing facility as described in the written agreement pursuant to
30 subsection ~~F~~ G of this section.

31 2. The total amount subject to any distribution required under
32 subsection A of this section has met the maximum amount set by subsection
33 C of this section.

34 ~~H~~ I. For the purposes of this section:

35 1. "Associated improvement" includes any public infrastructure
36 improvement that is made for the benefit of the manufacturing facility
37 outside of the parcel or parcels of real property where the manufacturing
38 facility is located.

39 2. "Capital investment" means an expenditure to acquire, lease or
40 improve property that is used for the benefit of a manufacturing facility,
41 including land, buildings, machinery and fixtures.

42 3. "Manufacturing facility":

43 (a) Means an establishment that is engaged in the mechanical,
44 physical or chemical transformation or fabrication of materials,
45 substances or components into new products in this state, that is

1 classified within sections 31 through 33 inclusive of the 2007 edition of
2 the north American industry classification system as published by the
3 national technical information service of the United States department of
4 commerce and that agrees to either:

5 (i) Make at least five hundred million dollars in capital
6 investment if the manufacturing facility is located in a county that has a
7 population of eight hundred thousand persons or more.

8 (ii) Make at least fifty million dollars in capital investment if
9 the manufacturing facility is located in a county that has a population of
10 less than eight hundred thousand persons.

11 (b) Does not include mining, milling or smelting mineral ore or
12 generating electricity.

13 4. "Population" means the population determined in the most recent
14 United States decennial census or the most recent special census as
15 provided in section 28-6532.

16 5. "Public infrastructure" means water **PRODUCTION, DELIVERY AND**
17 **DISPOSAL** facilities, wastewater **PRODUCTION, DELIVERY AND DISPOSAL**
18 facilities and roads that are necessary to support the activities of the
19 manufacturing facility.

20 Sec. 4. Section 42-5061, Arizona Revised Statutes, as amended by
21 Laws 2017, chapter 76, section 11, is amended to read:

22 **42-5061. Retail classification; definitions**

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

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

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

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

36 4. Sales of tangible personal property by any nonprofit
37 organization organized and operated exclusively for charitable purposes
38 and recognized by the United States internal revenue service under section
39 501(c)(3) of the internal revenue code.

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

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

45 7. The sale of stocks and bonds.

- 1 8. Drugs and medical oxygen, including delivery hose, mask or tent,
2 regulator and tank, on the prescription of a member of the medical, dental
3 or veterinarian profession who is licensed by law to administer such
4 substances.
- 5 9. Prosthetic appliances as defined in section 23-501 and as
6 prescribed or recommended by a health professional who is licensed
7 pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.
- 8 10. Insulin, insulin syringes and glucose test strips.
- 9 11. Prescription eyeglasses or contact lenses.
- 10 12. Hearing aids as defined in section 36-1901.
- 11 13. Durable medical equipment that has a centers for medicare and
12 medicaid services common procedure code, is designated reimbursable by
13 medicare, is prescribed by a person who is licensed under title 32,
14 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is
15 primarily and customarily used to serve a medical purpose, is generally
16 not useful to a person in the absence of illness or injury and is
17 appropriate for use in the home.
- 18 14. Sales of motor vehicles to nonresidents of this state for use
19 outside this state if the motor vehicle dealer ships or delivers the motor
20 vehicle to a destination out of this state.
- 21 15. Food, as provided in and subject to the conditions of article 3
22 of this chapter and section 42-5074.
- 23 16. Items purchased with United States department of agriculture
24 food stamp coupons issued under the food stamp act of 1977 (P.L. 95-113;
25 91 Stat. 958) or food instruments issued under section 17 of the child
26 nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42
27 United States Code section 1786).
- 28 17. Textbooks by any bookstore that are required by any state
29 university or community college.
- 30 18. Food and drink to a person that is engaged in a business that
31 is classified under the restaurant classification and that provides such
32 food and drink without monetary charge to its employees for their own
33 consumption on the premises during the employees' hours of employment.
- 34 19. Articles of food, drink or condiment and accessory tangible
35 personal property to a school district or charter school if such articles
36 and accessory tangible personal property are to be prepared and served to
37 persons for consumption on the premises of a public school within the
38 district or on the premises of the charter school during school hours.
- 39 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
40 article 1.
- 41 21. The sale of cash equivalents and the sale of precious metal
42 bullion and monetized bullion to the ultimate consumer, but the sale of
43 coins or other forms of money for manufacture into jewelry or works of art
44 is subject to the tax and the gross proceeds of sales or gross income
45 derived from the redemption of any cash equivalent by the holder as a

1 means of payment for goods or services that are taxable under this article
2 is subject to the tax. For the purposes of this paragraph:

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

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

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

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

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

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

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

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

38 25. Tangible personal property sold to:

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

40 (b) A qualifying health care organization as defined in section
41 42-5001 if the tangible personal property is used by the organization
42 solely to provide health and medical related educational and charitable
43 services.

44 (c) A qualifying health care organization as defined in section
45 42-5001 if the organization is dedicated to providing educational,

1 therapeutic, rehabilitative and family medical education training for
2 blind and visually impaired children and children with multiple
3 disabilities from the time of birth to age twenty-one.

4 (d) A qualifying community health center as defined in section
5 42-5001.

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

9 (f) For taxable periods beginning from and after June 30, 2001, a
10 nonprofit charitable organization that has qualified under section
11 501(c)(3) of the internal revenue code and that provides residential
12 apartment housing for low income persons over sixty-two years of age in a
13 facility that qualifies for a federal housing subsidy, if the tangible
14 personal property is used by the organization solely to provide
15 residential apartment housing for low income persons over sixty-two years
16 of age in a facility that qualifies for a federal housing subsidy.

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

19 (h) Any person representing or working on behalf of another person
20 described in subdivisions (a) through (g) of this paragraph if the
21 tangible personal property is incorporated or fabricated into a project
22 described in section 42-5075, subsection 0.

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

25 27. Tangible personal property sold to:

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

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

34 (ii) Incorporated or fabricated by the person into any project
35 described in section 42-5075, subsection 0.

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

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

43 28. The sale of a motor vehicle to:

44 (a) A nonresident of this state if the purchaser's state of
45 residence does not allow a corresponding use tax exemption to the tax

1 imposed by article 1 of this chapter and if the nonresident has secured a
2 special ninety day nonresident registration permit for the vehicle as
3 prescribed by sections 28-2154 and 28-2154.01.

4 (b) An enrolled member of an Indian tribe who resides on the Indian
5 reservation established for that tribe.

6 29. Tangible personal property purchased in this state by a
7 nonprofit charitable organization that has qualified under section
8 501(c)(3) of the United States internal revenue code and that engages in
9 and uses such property exclusively in programs for persons with mental or
10 physical disabilities if the programs are exclusively for training, job
11 placement, rehabilitation or testing.

12 30. Sales of tangible personal property by a nonprofit organization
13 that is exempt from taxation under section 501(c)(3), 501(c)(4) or
14 501(c)(6) of the internal revenue code if the organization is associated
15 with a major league baseball team or a national touring professional
16 golfing association and no part of the organization's net earnings inures
17 to the benefit of any private shareholder or individual.

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

23 32. Sales of tangible personal property by a nonprofit organization
24 that is exempt from taxation under section 501(c)(3), 501(c)(4),
25 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the
26 organization sponsors or operates a rodeo featuring primarily farm and
27 ranch animals and no part of the organization's net earnings inures to the
28 benefit of any private shareholder or individual.

29 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other
30 propagative material to persons who use those items to commercially
31 produce agricultural, horticultural, viticultural or floricultural crops
32 in this state.

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

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

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

43 37. Coal, petroleum, coke, natural gas, virgin fuel oil and
44 electricity sold to a qualified environmental technology manufacturer,
45 producer or processor as defined in section 41-1514.02 and directly used

1 or consumed in the generation or provision of on-site power or energy
2 solely for environmental technology manufacturing, producing or processing
3 or environmental protection. This paragraph shall apply for twenty full
4 consecutive calendar or fiscal years from the date the first paper
5 manufacturing machine is placed in service. In the case of an
6 environmental technology manufacturer, producer or processor who does not
7 manufacture paper, the time period shall begin with the date the first
8 manufacturing, processing or production equipment is placed in service.

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

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

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

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

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

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

1 42. Sales of:

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

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

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

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

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

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

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

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

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

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

44 49. Sales of alternative fuel vehicles if the vehicle was
45 manufactured as a diesel fuel vehicle and converted to operate on

1 alternative fuel and equipment that is installed in a conventional diesel
2 fuel motor vehicle to convert the vehicle to operate on an alternative
3 fuel, as defined in section 1-215.

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

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

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

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

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

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

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

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

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

40 57. Computer data center equipment sold to the owner, operator or
41 qualified colocation tenant of a computer data center that is certified by
42 the Arizona commerce authority under section 41-1519 or an authorized
43 agent of the owner, operator or qualified colocation tenant during the
44 qualification period for use in the qualified computer data center. For
45 the purposes of this paragraph, "computer data center", "computer data

1 center equipment", "qualification period" and "qualified colocation
2 tenant" have the same meanings prescribed in section 41-1519.

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

6 59. Sales of tangible personal property incorporated or fabricated
7 into a project described in section 42-5075, subsection 0, that is located
8 within the exterior boundaries of an Indian reservation for which the
9 owner, as defined in section 42-5075, of the project is an Indian tribe or
10 an affiliated Indian. For the purposes of this paragraph:

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

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

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

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

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

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

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

44 3. Tangible personal property sold to persons engaged in business
45 classified under the telecommunications classification, including a person

1 representing or working on behalf of such a person in a manner described
2 in section 42-5075, subsection 0, and consisting of central office
3 switching equipment, switchboards, private branch exchange equipment,
4 microwave radio equipment and carrier equipment including optical fiber,
5 coaxial cable and other transmission media that are components of carrier
6 systems.

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

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

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

20 7. Aircraft, navigational and communication instruments and other
21 accessories and related equipment sold to:

22 (a) A person:

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

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

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

36 (iv) Operating an aircraft to transport persons in any manner for
37 compensation or hire, OR FOR USE IN A FRACTIONAL OWNERSHIP PROGRAM THAT
38 MEETS THE REQUIREMENTS OF FEDERAL AVIATION ADMINISTRATION REGULATIONS (14
39 CODE OF FEDERAL REGULATIONS PART 91, SUBPART K), including as an air
40 carrier, a foreign air carrier or a commercial operator or under a
41 restricted category, within the meaning of 14 Code of Federal Regulations,
42 regardless of whether the operation or aircraft is regulated or certified
43 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
44 of Federal Regulations.

1 (v) That will lease or otherwise transfer operational control,
2 within the meaning of Federal Aviation Administration Operations
3 Specification A008, or its successor, of the aircraft, instruments or
4 accessories to one or more persons described in item (i), (ii), (iii) or
5 (iv) of this subdivision, subject to section 42-5009, subsection Q.

6 (b) Any foreign government.

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

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

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

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

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

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

32 13. New machinery and equipment consisting of agricultural
33 aircraft, tractors, tractor-drawn implements, self-powered implements,
34 machinery and equipment necessary for extracting milk, and machinery and
35 equipment necessary for cooling milk and livestock, and drip irrigation
36 lines not already exempt under paragraph 6 of this subsection and that are
37 used for commercial production of agricultural, horticultural,
38 viticultural and floricultural crops and products in this state. For the
39 purposes of this paragraph:

40 (a) "New machinery and equipment" means machinery and equipment
41 that have never been sold at retail except pursuant to leases or rentals
42 that do not total two years or more.

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

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

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

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

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

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

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

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

35 16. Clean rooms that are used for manufacturing, processing,
36 fabrication or research and development, as defined in paragraph 14 of
37 this subsection, of semiconductor products. For the purposes of this
38 paragraph, "clean room" means all property that comprises or creates an
39 environment where humidity, temperature, particulate matter and
40 contamination are precisely controlled within specified parameters,
41 without regard to whether the property is actually contained within that
42 environment or whether any of the property is affixed to or incorporated
43 into real property. Clean room:

44 (a) Includes the integrated systems, fixtures, piping, movable
45 partitions, lighting and all property that is necessary or adapted to

1 reduce contamination or to control airflow, temperature, humidity,
2 chemical purity or other environmental conditions or manufacturing
3 tolerances, as well as the production machinery and equipment operating in
4 conjunction with the clean room environment.

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

7 17. Machinery and equipment used directly in the feeding of
8 poultry, the environmental control of housing for poultry, the movement of
9 eggs within a production and packaging facility or the sorting or cooling
10 of eggs. This exemption does not apply to vehicles used for transporting
11 eggs.

12 18. Machinery or equipment, including related structural
13 components, that is employed in connection with manufacturing, processing,
14 fabricating, job printing, refining, mining, natural gas pipelines,
15 metallurgical operations, telecommunications, producing or transmitting
16 electricity or research and development and that is used directly to meet
17 or exceed rules or regulations adopted by the federal energy regulatory
18 commission, the United States environmental protection agency, the United
19 States nuclear regulatory commission, the Arizona department of
20 environmental quality or a political subdivision of this state to prevent,
21 monitor, control or reduce land, water or air pollution.

22 19. Machinery and equipment that are sold to a person engaged in
23 the commercial production of livestock, livestock products or
24 agricultural, horticultural, viticultural or floricultural crops or
25 products in this state, including a person representing or working on
26 behalf of such a person in a manner described in section 42-5075,
27 subsection 0, if the machinery and equipment are used directly and
28 primarily to prevent, monitor, control or reduce air, water or land
29 pollution.

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

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

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

42 (c) Any machinery or equipment purchased after the television
43 station has ceased analog broadcasting, or purchased after November 1,
44 2009, whichever occurs first.

1 21. Qualifying equipment that is purchased from and after June 30,
2 2004 through June 30, 2024 by a qualified business under section 41-1516
3 for harvesting or processing qualifying forest products removed from
4 qualifying projects as defined in section 41-1516. To qualify for this
5 deduction, the qualified business at the time of purchase must present its
6 certification approved by the department.

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

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

13 2. Janitorial equipment and hand tools.

14 3. Office equipment, furniture and supplies.

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

18 5. Motor vehicles required to be licensed by this state, except
19 buses or other urban mass transit vehicles specifically exempted pursuant
20 to subsection B, paragraph 11 of this section, without regard to the use
21 of such motor vehicles.

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

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

25 8. Machinery and equipment or other tangible personal property used
26 by a contractor in the performance of a contract.

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

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

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

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

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

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

19 2. Businesses classified under the:

20 (a) Transporting classification.

21 (b) Utilities classification.

22 (c) Telecommunications classification.

23 (d) Pipeline classification.

24 (e) Private car line classification.

25 (f) Publication classification.

26 (g) Job printing classification.

27 (h) Prime contracting classification.

28 (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

33 O. For the purposes of this section, a sale of wireless
34 telecommunications equipment to a person who holds the equipment for sale
35 or transfer to a customer as an inducement to enter into or continue a
36 contract for telecommunications services that are taxable under section
37 42-5064 is considered to be a sale for resale in the regular course of
38 business.

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

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

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

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

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

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

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

19 S. If a seller is entitled to a deduction pursuant to subsection B,
20 paragraph 15, subdivision (b) of this section, the department may require
21 the purchaser to establish that the requirements of subsection B,
22 paragraph 15, subdivision (b) of this section have been satisfied. If the
23 purchaser cannot establish that the requirements of subsection B,
24 paragraph 15, subdivision (b) of this section have been satisfied, the
25 purchaser is liable in an amount equal to any tax, penalty and interest
26 that the seller would have been required to pay under article 1 of this
27 chapter if the seller had not made a deduction pursuant to subsection B,
28 paragraph 15, subdivision (b) of this section. Payment of the amount
29 under this subsection exempts the purchaser from liability for any tax
30 imposed under article 4 of this chapter and related to the tangible
31 personal property purchased. The amount shall be treated as transaction
32 privilege tax to the purchaser and as tax revenues collected from the
33 seller to designate the distribution base pursuant to section 42-5029.

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

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

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

43 U. In computing the tax base for the sale of a motor vehicle to a
44 nonresident of this state, if the purchaser's state of residence allows a
45 corresponding use tax exemption to the tax imposed by article 1 of this

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

11 V. For the purposes of this section:

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

15 2. "Aircraft" includes:

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

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

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

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

31 W. For the purposes of subsection I of this section:

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

35 2. "Manufacturer" means a person who is principally engaged in the
36 fabrication, production or manufacture of products, wares or articles for
37 use from raw or prepared materials, imparting to those materials new
38 forms, qualities, properties and combinations.

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

41 4. "Overhead materials" means tangible personal property, the gross
42 proceeds of sales or gross income derived from that would otherwise be
43 included in the retail classification, and that are used or consumed in
44 the performance of a contract, the cost of which is charged to an overhead
45 expense account and allocated to various contracts based on generally

1 accepted accounting principles and consistent with government contract
2 accounting standards.

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

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

15 Sec. 5. Section 42-5159, Arizona Revised Statutes, as amended by
16 Laws 2017, chapter 76, section 13, is amended to read:

17 42-5159. Exemptions

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

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

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

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

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

38 5. Motor vehicle fuel and use fuel, the sales, distribution or use
39 of which in this state is subject to the tax imposed under title 28,
40 chapter 16, article 1, use fuel that is sold to or used by a person
41 holding a valid single trip use fuel tax permit issued under
42 section 28-5739, aviation fuel, the sales, distribution or use of which in
43 this state is subject to the tax imposed under section 28-8344, and jet
44 fuel, the sales, distribution or use of which in this state is subject to
45 the tax imposed under article 8 of this chapter.

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

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

12 8. Purchases of:

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

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

20 9. Seeds, seedlings, roots, bulbs, cuttings and other propagative
21 material for use in commercially producing agricultural, horticultural,
22 viticultural or floricultural crops in this state.

23 10. Tangible personal property not exceeding two hundred dollars in
24 any one month purchased by an individual at retail outside the continental
25 limits of the United States for the individual's own personal use and
26 enjoyment.

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

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

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

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

37 13. Tangible personal property purchased by:

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

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

43 (c) A licensed nursing care institution or a licensed residential
44 care institution or a residential care facility operated in conjunction
45 with a licensed nursing care institution or a licensed kidney dialysis

1 center, which provides medical services, nursing services or health
2 related services and is not used or held for profit.

3 (d) A qualifying health care organization, as defined in section
4 42-5001, if the tangible personal property is used by the organization
5 solely to provide health and medical related educational and charitable
6 services.

7 (e) A qualifying health care organization as defined in section
8 42-5001 if the organization is dedicated to providing educational,
9 therapeutic, rehabilitative and family medical education training for
10 blind and visually impaired children and children with multiple
11 disabilities from the time of birth to age twenty-one.

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

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

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

24 (ii) Incorporated or fabricated by the person into any project
25 described in section 42-5075, subsection 0.

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

28 (h) A person that is not subject to tax under section 42-5075 and
29 that has been provided a copy of a certificate described in section
30 42-5009, subsection L, if the property purchased is incorporated or
31 fabricated by the person into the real property, structure, project,
32 development or improvement described in the certificate.

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

37 (j) A qualifying community health center as defined in section
38 42-5001.

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

42 (l) A person engaged in business under the transient lodging
43 classification if the property is a personal hygiene item or articles used
44 by human beings for food, drink or condiment, except alcoholic beverages,

1 which are furnished without additional charge to and intended to be
2 consumed by the transient during the transient's occupancy.

3 (m) For taxable periods beginning from and after June 30, 2001, a
4 nonprofit charitable organization that has qualified under section
5 501(c)(3) of the internal revenue code and that provides residential
6 apartment housing for low income persons over sixty-two years of age in a
7 facility that qualifies for a federal housing subsidy, if the tangible
8 personal property is used by the organization solely to provide
9 residential apartment housing for low income persons over sixty-two years
10 of age in a facility that qualifies for a federal housing subsidy.

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

13 (o) A person representing or working on behalf of any person
14 described in subdivision (a), (b), (c), (d), (e), (f), (i), (j), (k), (m)
15 or (n) of this paragraph, if the tangible personal property is
16 incorporated or fabricated into a project described in section 42-5075,
17 subsection 0.

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

23 15. Tangible personal property sold by:

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

27 (b) A nonprofit organization that is exempt from taxation under
28 section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if
29 the organization is associated with a major league baseball team or a
30 national touring professional golfing association and no part of the
31 organization's net earnings inures to the benefit of any private
32 shareholder or individual.

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

39 16. Drugs and medical oxygen, including delivery hose, mask or
40 tent, regulator and tank, on the prescription of a member of the medical,
41 dental or veterinarian profession who is licensed by law to administer
42 such substances.

43 17. Prosthetic appliances, as defined in section 23-501, prescribed
44 or recommended by a person who is licensed, registered or otherwise

1 professionally credentialed as a physician, dentist, podiatrist,
2 chiropractor, naturopath, homeopath, nurse or optometrist.

3 18. Prescription eyeglasses and contact lenses.

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

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

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

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

15 23. Items purchased with United States department of agriculture
16 food stamp coupons issued under the food stamp act of 1977 (P.L. 95-113;
17 91 Stat. 958) or food instruments issued under section 17 of the child
18 nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42
19 United States Code section 1786).

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

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

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

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

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

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

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

40 31. Coal, petroleum, coke, natural gas, virgin fuel oil and
41 electricity purchased by a qualified environmental technology
42 manufacturer, producer or processor as defined in section 41-1514.02 and
43 directly used or consumed in the generation or provision of on-site power
44 or energy solely for environmental technology manufacturing, producing or
45 processing or environmental protection. This paragraph shall apply for

1 twenty full consecutive calendar or fiscal years from the date the first
2 paper manufacturing machine is placed in service. In the case of an
3 environmental technology manufacturer, producer or processor who does not
4 manufacture paper, the time period shall begin with the date the first
5 manufacturing, processing or production equipment is placed in service.

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

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

10 (b) Public educational institutions.

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

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

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

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

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

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

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

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

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

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

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

32 41. Wireless telecommunications equipment that is held for sale or
33 transfer to a customer as an inducement to enter into or continue a
34 contract for telecommunications services that are taxable under section
35 42-5064.

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

39 43. Tangible personal property purchased by a commercial airline
40 and consisting of food, beverages and condiments and accessories used for
41 serving the food and beverages, if those items are to be provided without
42 additional charge to passengers for consumption in flight. For the
43 purposes of this paragraph, "commercial airline" means a person holding a
44 federal certificate of public convenience and necessity or foreign air

1 carrier permit for air transportation to transport persons, property or
2 United States mail in intrastate, interstate or foreign commerce.

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

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

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

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

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

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

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

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

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

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

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

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

44 52. Repair parts installed in equipment used directly by a
45 qualified business under section 41-1516 in harvesting, processing or

1 transporting qualifying forest products removed from qualifying projects
2 as defined in section 41-1516.

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

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

18 55. Coal acquired from an owner or operator of a power plant by a
19 person who is responsible for refining coal if both of the following
20 apply:

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

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

29 56. Tangible personal property incorporated or fabricated into a
30 project described in section 42-5075, subsection 0, that is located within
31 the exterior boundaries of an Indian reservation for which the owner, as
32 defined in section 42-5075, of the project is an Indian tribe or an
33 affiliated Indian. For the purposes of this paragraph:

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

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

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

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

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

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

17 (ii) Prepaid calling cards for telecommunications services.

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

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

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

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

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

41 3. Tangible personal property sold to persons engaged in business
42 classified under the telecommunications classification under section
43 42-5064, including a person representing or working on behalf of such a
44 person in a manner described in section 42-5075, subsection 0, and
45 consisting of central office switching equipment, switchboards, private

1 branch exchange equipment, microwave radio equipment and carrier equipment
2 including optical fiber, coaxial cable and other transmission media that
3 are components of carrier systems.

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

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

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

17 7. Aircraft, navigational and communication instruments and other
18 accessories and related equipment sold to:

19 (a) A person:

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

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

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

33 (iv) Operating an aircraft to transport persons in any manner for
34 compensation or hire, [OR FOR USE IN A FRACTIONAL OWNERSHIP PROGRAM THAT](#)
35 [MEETS THE REQUIREMENTS OF FEDERAL AVIATION ADMINISTRATION REGULATIONS \(14](#)
36 [CODE OF FEDERAL REGULATIONS PART 91, SUBPART K\)](#), including as an air
37 carrier, a foreign air carrier or a commercial operator or under a
38 restricted category, within the meaning of 14 Code of Federal Regulations,
39 regardless of whether the operation or aircraft is regulated or certified
40 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
41 of Federal Regulations.

42 (v) That will lease or otherwise transfer operational control,
43 within the meaning of Federal Aviation Administration Operations
44 Specification A008, or its successor, of the aircraft, instruments or

1 accessories to one or more persons described in item (i), (ii), (iii) or
2 (iv) of this subdivision, subject to section 42-5009, subsection Q.

3 (b) Any foreign government.

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

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

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

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

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

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

29 13. New machinery and equipment consisting of agricultural
30 aircraft, tractors, tractor-drawn implements, self-powered implements,
31 machinery and equipment necessary for extracting milk, and machinery and
32 equipment necessary for cooling milk and livestock, and drip irrigation
33 lines not already exempt under paragraph 6 of this subsection and that are
34 used for commercial production of agricultural, horticultural,
35 viticultural and floricultural crops and products in this state. For the
36 purposes of this paragraph:

37 (a) "New machinery and equipment" means machinery or equipment that
38 has never been sold at retail except pursuant to leases or rentals that do
39 not total two years or more.

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

42 14. Machinery or equipment used in research and development. For
43 the purposes of this paragraph, "research and development" means basic and
44 applied research in the sciences and engineering, and designing,
45 developing or testing prototypes, processes or new products, including

1 research and development of computer software that is embedded in or an
2 integral part of the prototype or new product or that is required for
3 machinery or equipment otherwise exempt under this section to function
4 effectively. Research and development do not include manufacturing
5 quality control, routine consumer product testing, market research, sales
6 promotion, sales service, research in social sciences or psychology,
7 computer software research that is not included in the definition of
8 research and development, or other nontechnological activities or
9 technical services.

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

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

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

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

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

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

31 16. Clean rooms that are used for manufacturing, processing,
32 fabrication or research and development, as defined in paragraph 14 of
33 this subsection, of semiconductor products. For the purposes of this
34 paragraph, "clean room" means all property that comprises or creates an
35 environment where humidity, temperature, particulate matter and
36 contamination are precisely controlled within specified parameters,
37 without regard to whether the property is actually contained within that
38 environment or whether any of the property is affixed to or incorporated
39 into real property. Clean room:

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

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

3 17. Machinery and equipment that are used directly in the feeding
4 of poultry, the environmental control of housing for poultry, the movement
5 of eggs within a production and packaging facility or the sorting or
6 cooling of eggs. This exemption does not apply to vehicles used for
7 transporting eggs.

8 18. Machinery or equipment, including related structural
9 components, that is employed in connection with manufacturing, processing,
10 fabricating, job printing, refining, mining, natural gas pipelines,
11 metallurgical operations, telecommunications, producing or transmitting
12 electricity or research and development and that is used directly to meet
13 or exceed rules or regulations adopted by the federal energy regulatory
14 commission, the United States environmental protection agency, the United
15 States nuclear regulatory commission, the Arizona department of
16 environmental quality or a political subdivision of this state to prevent,
17 monitor, control or reduce land, water or air pollution.

18 19. Machinery and equipment that are used in the commercial
19 production of livestock, livestock products or agricultural,
20 horticultural, viticultural or floricultural crops or products in this
21 state, including production by a person representing or working on behalf
22 of such a person in a manner described in section 42-5075, subsection 0,
23 if the machinery and equipment are used directly and primarily to prevent,
24 monitor, control or reduce air, water or land pollution.

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

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

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

37 (c) Any machinery or equipment purchased after the television
38 station has ceased analog broadcasting, or purchased after November 1,
39 2009, whichever occurs first.

40 21. Qualifying equipment that is purchased from and after June 30,
41 2004 through June 30, 2024 by a qualified business under section 41-1516
42 for harvesting or processing qualifying forest products removed from
43 qualifying projects as defined in section 41-1516. To qualify for this
44 exemption, the qualified business must obtain and present its
45 certification from the Arizona commerce authority at the time of purchase.

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

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

7 2. Janitorial equipment and hand tools.

8 3. Office equipment, furniture and supplies.

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

12 5. Motor vehicles required to be licensed by this state, except
13 buses or other urban mass transit vehicles specifically exempted pursuant
14 to subsection B, paragraph 11 of this section, without regard to the use
15 of such motor vehicles.

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

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

19 8. Machinery and equipment or tangible personal property used by a
20 contractor in the performance of a contract.

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

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

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

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

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

39 1. Fees charged by a municipally owned utility to persons
40 constructing residential, commercial or industrial developments or
41 connecting residential, commercial or industrial developments to a
42 municipal utility system or systems if the fees are segregated and used
43 only for capital expansion, system enlargement or debt service of the
44 utility system or systems.

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

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

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

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

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

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

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

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

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

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

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

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

1 (d) For the fourth tax year of assessment, the assessor shall use
2 eighty-three ~~per cent~~ PERCENT of the scheduled depreciated value.

3 (e) For the fifth and subsequent tax years of assessment, the
4 assessor shall use the scheduled depreciated value as prescribed in the
5 department's guidelines.

6 2. For personal property that is initially classified during tax
7 year 2008 through tax year 2011 as class one, paragraph 8, 9, 10 or 13
8 pursuant to section 42-12001 and personal property that is initially
9 classified during tax year 2008 through tax year 2011 as class two (P)
10 pursuant to section 42-12002:

11 (a) For the first tax year of assessment, the assessor shall use
12 thirty ~~per cent~~ PERCENT of the scheduled depreciated value.

13 (b) For the second tax year of assessment, the assessor shall use
14 forty-six ~~per cent~~ PERCENT of the scheduled depreciated value.

15 (c) For the third tax year of assessment, the assessor shall use
16 sixty-two ~~per cent~~ PERCENT of the scheduled depreciated value.

17 (d) For the fourth tax year of assessment, the assessor shall use
18 seventy-eight ~~per cent~~ PERCENT of the scheduled depreciated value.

19 (e) For the fifth tax year of assessment, the assessor shall use
20 ninety-four ~~per cent~~ PERCENT of the scheduled depreciated value.

21 (f) For the sixth and subsequent tax years of assessment, the
22 assessor shall use the scheduled depreciated value as prescribed in the
23 department's guidelines.

24 3. For personal property that is initially classified during or
25 after tax year 2012 as class one, paragraph 8, 9, 10 or 13 pursuant to
26 section 42-12001, ~~and~~ personal property that is initially classified
27 during or after tax year 2012 as class two (P) pursuant to section
28 42-12002 AND PERSONAL PROPERTY THAT IS ACQUIRED DURING OR AFTER TAX YEAR
29 2017 AND INITIALLY CLASSIFIED DURING OR AFTER TAX YEAR 2018 AS CLASS SIX
30 PURSUANT TO SECTION 42-12006, PARAGRAPH 2 OR 3:

31 (a) For the first tax year of assessment, the assessor shall use
32 twenty-five ~~per cent~~ PERCENT of the scheduled depreciated value.

33 (b) For the second tax year of assessment, the assessor shall use
34 forty-one ~~per cent~~ PERCENT of the scheduled depreciated value.

35 (c) For the third tax year of assessment, the assessor shall use
36 fifty-seven ~~per cent~~ PERCENT of the scheduled depreciated value.

37 (d) For the fourth tax year of assessment, the assessor shall use
38 seventy-three ~~per cent~~ PERCENT of the scheduled depreciated value.

39 (e) For the fifth tax year of assessment, the assessor shall use
40 eighty-nine ~~per cent~~ PERCENT of the scheduled depreciated value.

41 (f) For the sixth and subsequent tax years of assessment, the
42 assessor shall use the scheduled depreciated value as prescribed in the
43 department's guidelines.

44 C. The additional depreciation prescribed in subsection B of this
45 section:

1 1. Does not apply to any property valued by the department.

2 2. Shall not reduce the valuation below the minimum value
3 prescribed by the department for property in use.

4 Sec. 7. Section 43-1074.01, Arizona Revised Statutes, as amended by
5 Laws 2014, chapter 168, section 6, is amended to read:

6 43-1074.01. Credit for increased research activities

7 A. A credit is allowed against the taxes imposed by this title in
8 an amount determined pursuant to section 41 of the internal revenue code,
9 except that:

10 1. The amount of the credit is based on the excess, if any, of the
11 qualified research expenses for the taxable year over the base amount as
12 defined in section 41(c) of the internal revenue code and is computed as
13 follows:

14 (a) If the excess is two million five hundred thousand dollars or
15 less, ~~—~~ :

16 (i) FOR TAXABLE YEARS THROUGH DECEMBER 31, 2017, THE CREDIT IS
17 EQUAL TO TWENTY PERCENT OF THAT AMOUNT.

18 (ii) FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2017
19 THROUGH DECEMBER 31, 2021, the credit is equal to ~~twenty per cent~~
20 TWENTY-FOUR PERCENT of that amount.

21 (iii) FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2021,
22 THE CREDIT IS EQUAL TO TWENTY PERCENT OF THAT AMOUNT.

23 (b) If the excess is over two million five hundred thousand
24 dollars, ~~—~~ :

25 (i) FOR TAXABLE YEARS THROUGH DECEMBER 31, 2017, THE CREDIT IS
26 EQUAL TO FIVE HUNDRED THOUSAND DOLLARS PLUS ELEVEN PERCENT OF ANY AMOUNT
27 EXCEEDING TWO MILLION FIVE HUNDRED THOUSAND DOLLARS.

28 (ii) FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2017,
29 THROUGH DECEMBER 31, 2021, the credit is equal to ~~five~~ SIX hundred
30 thousand dollars plus ~~eleven per cent~~ FIFTEEN PERCENT of any amount
31 exceeding two million five hundred thousand dollars. ~~, except that:~~

32 ~~(i) For taxable years beginning from and after December 31, 2000~~
33 ~~through December 31, 2001, the credit shall not exceed one million five~~
34 ~~hundred thousand dollars.~~

35 ~~(ii) For taxable years beginning from and after December 31, 2001~~
36 ~~through December 31, 2002, the credit shall not exceed two million five~~
37 ~~hundred thousand dollars.~~

38 (iii) FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2021,
39 THE CREDIT IS EQUAL TO FIVE HUNDRED THOUSAND DOLLARS PLUS ELEVEN PERCENT
40 OF ANY AMOUNT EXCEEDING TWO MILLION FIVE HUNDRED THOUSAND DOLLARS.

41 (c) For taxable years beginning from and after December 31, 2011,
42 an additional credit amount is allowed if the taxpayer made basic research
43 payments during the taxable year to a university under the jurisdiction of
44 the Arizona board of regents. The additional credit amount is equal to
45 ten ~~per cent~~ PERCENT of the excess, if any, of the basic research payments

1 over the qualified organization base period amount for the taxable year.
2 The department shall not allow credit amounts under this subdivision and
3 section 43-1168, subsection A, paragraph 1, subdivision (d) that exceed,
4 in the aggregate, a combined total of ten million dollars in any calendar
5 year. Subject to that limit, on application by the taxpayer, the
6 department shall certify credit amounts under this subdivision and section
7 43-1168, subsection A, paragraph 1, subdivision (d) based on priority
8 placement established by the date that the taxpayer filed the application.
9 For taxable years beginning from and after December 31, 2014, any basic
10 research payments used to determine the additional credit under this
11 subdivision must first receive certification from the Arizona commerce
12 authority pursuant to section 41-1507.01. The additional credit amount
13 under this subdivision shall not exceed the amount allowed based on actual
14 basic research payments or the department's certification, whichever is
15 less. If an application, if certified in full, would exceed the ten
16 million dollar limit, the department shall certify only an amount within
17 that limit. After the limit is attained, the department shall deny any
18 subsequent applications regardless of whether other certified amounts are
19 not actually claimed as a credit or other taxpayers fail to qualify to
20 actually claim certified amounts. Notwithstanding subsections B and C of
21 this section, any amount of the additional credit under this subdivision
22 that exceeds the taxes otherwise due under this title is not refundable,
23 but may be carried forward to the next five consecutive taxable years.
24 For the purposes of this subdivision, "basic research payments" and
25 "qualified organization base period amount" have the same meanings
26 prescribed by section 41(e) of the internal revenue code without regard to
27 whether the taxpayer is or is not a corporation.

28 2. Qualified research includes only research conducted in this
29 state, including research conducted at a university in this state and paid
30 for by the taxpayer.

31 3. If two or more taxpayers, including partners in a partnership
32 and shareholders of an S corporation, as defined in section 1361 of the
33 internal revenue code, share in the eligible expenses, each taxpayer is
34 eligible to receive a proportionate share of the credit.

35 4. The credit under this section applies only to expenses incurred
36 from and after December 31, 2000.

37 5. The termination provisions of section 41 of the internal revenue
38 code do not apply.

39 B. Except as provided by subsection C of this section, if the
40 allowable credit under this section exceeds the taxes otherwise due under
41 this title on the claimant's income, or if there are no taxes due under
42 this title, the amount of the credit not used to offset taxes may be
43 carried forward to the next fifteen consecutive taxable years. The amount
44 of credit carryforward from taxable years beginning from and after
45 December 31, 2000 through December 31, 2002 that may be used in any

1 taxable year may not exceed the taxpayer's tax liability under this title
2 or five hundred thousand dollars, whichever is less, minus the credit
3 under this section for the current taxable year's qualified research
4 expenses. The amount of credit carryforward from taxable years beginning
5 from and after December 31, 2002 that may be used in any taxable year may
6 not exceed the taxpayer's tax liability under this title minus the credit
7 under this section for the current taxable year's qualified research
8 expenses. A taxpayer who carries forward any amount of credit under this
9 subsection may not thereafter claim a refund of any amount of the credit
10 under subsection C of this section.

11 C. For taxable years beginning from and after December 31, 2009, if
12 a taxpayer who claims a credit under this section employs fewer than one
13 hundred fifty persons in the taxpayer's trade or business and if the
14 allowable credit under this section exceeds the taxes otherwise due under
15 this title on the claimant's income, or if there are no taxes due under
16 this title, in lieu of carrying the excess amount of credit forward to
17 subsequent taxable years under subsection B of this section, the taxpayer
18 may elect to receive a refund as follows:

19 1. The taxpayer must apply to the Arizona commerce authority for
20 qualification for the refund pursuant to section 41-1507 and submit a copy
21 of the authority's certificate of qualification to the department of
22 revenue with the taxpayer's income tax return.

23 2. The amount of the refund is limited to seventy-five ~~per cent~~
24 PERCENT of the amount by which the allowable credit under this section
25 exceeds the taxpayer's tax liability under this title for the taxable
26 year. The remainder of the excess amount of the credit is waived.

27 3. The refund shall be paid in the manner prescribed by section
28 42-1118.

29 4. The refund is subject to setoff under section 42-1122.

30 5. If the department determines that a credit refunded pursuant to
31 this subsection is incorrect or invalid, the excess credit issued may be
32 treated as a tax deficiency pursuant to section 42-1108.

33 D. A taxpayer that claims a credit for increased research and
34 development activity under this section shall not claim a credit under
35 section 43-1085.01 for the same expenses.

36 Sec. 8. Section 43-1083.03, Arizona Revised Statutes, is amended to
37 read:

38 43-1083.03. Credit for qualified facilities

39 A. For taxable years beginning from and after December 31, 2012
40 through December 31, 2022, a credit is allowed against the taxes imposed
41 by this title for qualifying investment and employment in expanding or
42 locating a qualified facility in this state. To qualify for the credit,
43 after June 30, 2012 the taxpayer must invest in a new qualified facility
44 or expand an existing qualified facility in this state and produce new
45 full-time employment positions where the job duties are performed at the

1 location of the qualifying investment. The taxpayer must meet the
2 employee compensation and employee health benefit requirements prescribed
3 by section 41-1512.

4 B. The amount of the credit is computed as follows:

5 1. Ten percent of the lesser of:

6 (a) The total qualifying investment in the qualified facility.

7 (b) Two hundred thousand dollars for each net new full-time
8 employment position at the qualified facility.

9 2. The amount of the credit shall not exceed the postapproval
10 amount determined by the Arizona commerce authority under section 41-1512,
11 subsection P.

12 3. Subject to ~~subsection~~ SUBSECTIONS G AND J of this section: ~~—~~

13 (a) The credit amount computed under paragraph 1 of this subsection
14 is apportioned, and the taxpayer shall claim the credit in five equal
15 annual installments in each of five consecutive taxable years.

16 (b) THE TAXPAYER MAY CLAIM ALL FIVE ANNUAL INSTALLMENTS OF A CREDIT
17 THAT WAS PREAPPROVED BEFORE JANUARY 1, 2023 BY THE ARIZONA COMMERCE
18 AUTHORITY NOTWITHSTANDING ANY INTERVENING REPEAL OR OTHER TERMINATION OF
19 THE CREDIT.

20 C. To claim the credit the taxpayer must:

21 1. Conduct a business that qualifies under section 41-1512.

22 2. Receive preapproval and postapproval from the Arizona commerce
23 authority pursuant to section 41-1512.

24 3. Submit to the department a copy of a current and valid
25 certification of qualification issued to the taxpayer by the Arizona
26 commerce authority.

27 D. To be counted for the purposes of the credit, an employee must
28 have been employed at the qualified facility for at least ninety days
29 during the taxable year in a permanent full-time employment position of at
30 least one thousand seven hundred fifty hours per year. An employee who is
31 hired during the last ninety days of the taxable year shall be considered
32 a new employee during the next taxable year. To be counted for the
33 purposes of the credit during the first taxable year of employment, the
34 employee must not have been previously employed by the taxpayer within
35 twelve months before the current date of hire. The terms of employment
36 must comply in all cases with the requirements of section 41-1512 and be
37 certified by the Arizona commerce authority.

38 E. Co-owners of a business, including partners in a partnership,
39 members of a limited liability company and shareholders of an
40 S corporation, as defined in section 1361 of the internal revenue code,
41 may each claim only the pro rata share of the credit allowed under this
42 section based on the ownership interest. The total of the credits allowed
43 all owners of the business may not exceed the amount that would have been
44 allowed for a sole owner of the business.

1 F. If the allowable tax credit for a taxable year exceeds the
2 income taxes otherwise due on the claimant's income, or if there are no
3 state income taxes due on the claimant's income, the amount of the claim
4 not used as an offset against income taxes shall be paid to the taxpayer
5 in the same manner as a refund under section 42-1118. Refunds made
6 pursuant to this subsection are subject to setoff under section 42-1122.
7 If the department determines that a refund is incorrect or invalid, the
8 excess refund may be treated as a tax deficiency pursuant to section
9 42-1108.

10 G. Except as provided by subsection H of this section, if, within
11 five taxable years after first receiving a credit pursuant to this
12 section, the certification of qualification of a business is terminated or
13 revoked under section 41-1512, other than for reasons beyond the control
14 of the business as determined by the Arizona commerce authority, the
15 taxpayer is disqualified from credits under this section in subsequent
16 taxable years. On a determination that the taxpayer has committed fraud
17 or relocated outside of this state within five taxable years after first
18 receiving a credit pursuant to this section, the credits allowed the
19 taxpayer in all taxable years pursuant to this section are subject to
20 recapture pursuant to this subsection. This subsection applies only in
21 the case of the termination or revocation of a certification of
22 qualification under section 41-1512. This subsection does not apply if,
23 in any taxable year, a taxpayer otherwise does not qualify for or fails to
24 claim the credit under this section. The recapture of credits is computed
25 by increasing the amount of taxes imposed in the year following the year
26 of termination or revocation by the full amount of all credits previously
27 allowed under this section.

28 H. A taxpayer who claims a credit under section 43-1074, 43-1079 or
29 43-1083.01 may not claim a credit under this section with respect to the
30 same full-time employment positions.

31 I. The department of revenue shall adopt rules and prescribe forms
32 and procedures as necessary for the purposes of this section. The
33 department of revenue and the Arizona commerce authority shall collaborate
34 in adopting rules as necessary to avoid duplication and contradictory
35 requirements while accomplishing the intent and purposes of this section.

36 J. Each taxable year after the postapproval of the credit under
37 section 41-1512, subsection P, when the taxpayer files the taxpayer's
38 income tax return, the taxpayer shall:

39 1. Notify the department, on a form prescribed by the department,
40 of any full-time employment position for which a credit was claimed under
41 this section AND that was vacant for more than one hundred fifty days from
42 the date the full-time employment position was originally filled to the
43 end of that ~~tax~~ TAXABLE year. The period that a full-time employment
44 position was vacant may not include the period before the full-time
45 employment position was filled for the first time.

1 2. Reduce the portion of the credit claimed for the taxable year
2 pursuant to subsection B, paragraph 3 of this section by four thousand
3 dollars for each full-time employment position reported pursuant to
4 paragraph 1 of this subsection.

5 Sec. 9. Section 43-1164.04, Arizona Revised Statutes, is amended to
6 read:

7 43-1164.04. Credit for qualified facilities

8 A. For taxable years beginning from and after December 31, 2012
9 through December 31, 2022, a credit is allowed against the taxes imposed
10 by this title for qualifying investment and employment in expanding or
11 locating a qualified facility in this state. To qualify for the credit,
12 after June 30, 2012 the taxpayer must invest in a new qualified facility
13 or expand an existing qualified facility in this state and produce new
14 full-time employment positions where the job duties are performed at the
15 location of the qualifying investment. The taxpayer must meet the
16 employee compensation and employee health benefit requirements prescribed
17 by section 41-1512.

18 B. The amount of the credit is computed as follows:

19 1. Ten percent of the lesser of:

20 (a) The total qualifying investment in the qualified facility.

21 (b) Two hundred thousand dollars for each net new full-time
22 employment position at the qualified facility.

23 2. The amount of the credit shall not exceed the postapproval
24 amount determined by the Arizona commerce authority under section 41-1512,
25 subsection P.

26 3. Subject to ~~subsection~~ **SUBSECTIONS G AND J** of this section: ~~;~~

27 (a) The credit amount computed under paragraph 1 of this subsection
28 is apportioned, and the taxpayer shall claim the credit in five equal
29 annual installments in each of five consecutive taxable years.

30 (b) **THE TAXPAYER MAY CLAIM ALL FIVE ANNUAL INSTALLMENTS OF A CREDIT**
31 **THAT WAS PREAPPROVED BEFORE JANUARY 1, 2023 BY THE ARIZONA COMMERCE**
32 **AUTHORITY NOTWITHSTANDING ANY INTERVENING REPEAL OR OTHER TERMINATION OF**
33 **THE CREDIT.**

34 C. To claim the credit the taxpayer must:

35 1. Conduct a business that qualifies under section 41-1512.

36 2. Receive preapproval and postapproval from the Arizona commerce
37 authority pursuant to section 41-1512.

38 3. Submit to the department a copy of a current and valid
39 certification of qualification issued to the taxpayer by the Arizona
40 commerce authority.

41 D. To be counted for the purposes of the credit, an employee must
42 have been employed at the qualified facility for at least ninety days
43 during the taxable year in a permanent full-time employment position of at
44 least one thousand seven hundred fifty hours per year. An employee who is
45 hired during the last ninety days of the taxable year shall be considered

1 a new employee during the next taxable year. To be counted for the
2 purposes of the credit during the first taxable year of employment, the
3 employee must not have been previously employed by the taxpayer within
4 twelve months before the current date of hire. The terms of employment
5 must comply in all cases with the requirements of section 41-1512 and be
6 certified by the Arizona commerce authority.

7 E. Co-owners of a business, including corporate partners in a
8 partnership and members of a limited liability company, may each claim
9 only the pro rata share of the credit allowed under this section based on
10 the ownership interest. The total of the credits allowed all owners of
11 the business may not exceed the amount that would have been allowed for a
12 sole owner of the business.

13 F. If the allowable tax credit for a taxable year exceeds the
14 income taxes otherwise due on the claimant's income, or if there are no
15 state income taxes due on the claimant's income, the amount of the claim
16 not used as an offset against income taxes shall be paid to the taxpayer
17 in the same manner as a refund under section 42-1118. Refunds made
18 pursuant to this subsection are subject to setoff under section 42-1122.
19 If the department determines that a refund is incorrect or invalid, the
20 excess refund may be treated as a tax deficiency pursuant to section
21 42-1108.

22 G. Except as provided by subsection H of this section, if, within
23 five taxable years after first receiving a credit pursuant to this
24 section, the certification of qualification of a business is terminated or
25 revoked under section 41-1512, other than for reasons beyond the control
26 of the business as determined by the Arizona commerce authority, the
27 taxpayer is disqualified from credits under this section in subsequent
28 taxable years. On a determination that the taxpayer has committed fraud or
29 relocated outside of this state within five taxable years after first
30 receiving a credit pursuant to this section, the credits allowed the
31 taxpayer in all taxable years pursuant to this section are subject to
32 recapture pursuant to this subsection. This subsection applies only in
33 the case of the termination or revocation of a certification of
34 qualification under section 41-1512. This subsection does not apply if,
35 in any taxable year, a taxpayer otherwise does not qualify for or fails to
36 claim the credit under this section. The recapture of credits is computed
37 by increasing the amount of taxes imposed in the year following the year
38 of termination or revocation by the full amount of all credits previously
39 allowed under this section.

40 H. A taxpayer who claims a credit under section 43-1161, 43-1164.01
41 or 43-1167 may not claim a credit under this section with respect to the
42 same full-time employment positions.

43 I. The department of revenue shall adopt rules and prescribe forms
44 and procedures as necessary for the purposes of this section. The
45 department of revenue and the Arizona commerce authority shall collaborate

1 in adopting rules as necessary to avoid duplication and contradictory
2 requirements while accomplishing the intent and purposes of this section.

3 J. Each taxable year after the postapproval of the credit under
4 section 41-1512, subsection P, when the taxpayer files the taxpayer's
5 income tax return, the taxpayer shall:

6 1. Notify the department, on a form prescribed by the department,
7 of any full-time employment position for which a credit was claimed under
8 this section AND that was vacant for more than one hundred fifty days from
9 the date the full-time employment position was originally filled to the
10 end of that ~~tax~~ TAXABLE year. The period that a full-time employment
11 position was vacant may not include the period before the full-time
12 employment position was filled for the first time.

13 2. Reduce the portion of the credit claimed for the taxable year
14 pursuant to subsection B, paragraph 3 of this section by four thousand
15 dollars for each full-time employment position reported pursuant to
16 paragraph 1 of this subsection.

17 Sec. 10. Section 43-1168, Arizona Revised Statutes, as amended by
18 Laws 2014, chapter 168, section 10, is amended to read:

19 ~~43-1168.~~ Credit for increased research activity

20 A. A credit is allowed against the taxes imposed by this title in
21 an amount determined pursuant to section 41 of the internal revenue code,
22 except that:

23 1. The amount of the credit is computed as follows:

24 (a) Add:

25 (i) The excess, if any, of the qualified research expenses for the
26 taxable year over the base amount as defined in section 41(c) of the
27 internal revenue code.

28 (ii) The basic research payments determined under section
29 41(e)(1)(A) of the internal revenue code.

30 (b) If the sum computed under subdivision (a) OF THIS PARAGRAPH is
31 two million five hundred thousand dollars or less, ~~;~~ :

32 (i) FOR TAXABLE YEARS THROUGH DECEMBER 31, 2017, THE CREDIT IS
33 EQUAL TO TWENTY PERCENT OF THAT AMOUNT.

34 (ii) FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2017
35 THROUGH DECEMBER 31, 2021, the credit is equal to ~~twenty per cent~~
36 TWENTY-FOUR PERCENT of that amount.

37 (iii) FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2021,
38 THE CREDIT IS EQUAL TO TWENTY PERCENT OF THAT AMOUNT.

39 (c) If the sum computed under subdivision (a) OF THIS PARAGRAPH is
40 over two million five hundred thousand dollars, ~~;~~ :

41 (i) FOR TAXABLE YEARS THROUGH DECEMBER 31, 2017, THE CREDIT IS
42 EQUAL TO FIVE HUNDRED THOUSAND DOLLARS PLUS ELEVEN PERCENT OF ANY AMOUNT
43 EXCEEDING TWO MILLION FIVE HUNDRED THOUSAND DOLLARS.

44 (ii) FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2017,
45 THROUGH DECEMBER 31, 2021, the credit is equal to ~~five~~ SIX hundred

1 thousand dollars plus ~~eleven per cent~~ FIFTEEN PERCENT of any amount
2 exceeding two million five hundred thousand dollars. ~~, except that:~~

3 ~~(i) For taxable years beginning from and after December 31, 2000~~
4 ~~through December 31, 2001, the credit shall not exceed one million five~~
5 ~~hundred thousand dollars.~~

6 ~~(ii) For taxable years beginning from and after December 31, 2001~~
7 ~~through December 31, 2002, the credit shall not exceed two million five~~
8 ~~hundred thousand dollars.~~

9 (iii) FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2021,
10 THE CREDIT IS EQUAL TO FIVE HUNDRED THOUSAND DOLLARS PLUS ELEVEN PERCENT
11 OF ANY AMOUNT EXCEEDING TWO MILLION FIVE HUNDRED THOUSAND DOLLARS.

12 (d) For taxable years beginning from and after December 31, 2011,
13 an additional credit amount is allowed if the taxpayer made basic research
14 payments during the taxable year to a university under the jurisdiction of
15 the Arizona board of regents. The additional credit amount is equal to
16 ten ~~per cent~~ PERCENT of the excess, if any, of the basic research payments
17 over the qualified organization base period amount for the taxable year.
18 The department shall not allow credit amounts under this subdivision and
19 section 43-1074.01, subsection A, paragraph 1, subdivision (c) that
20 exceed, in the aggregate, a combined total of ten million dollars in any
21 calendar year. Subject to that limit, on application by the taxpayer, the
22 department shall certify credit amounts under this subdivision and section
23 43-1074.01, subsection A, paragraph 1, subdivision (c) based on priority
24 placement established by the date that the taxpayer filed the application.
25 For taxable years beginning from and after December 31, 2014, any basic
26 research payments used to determine the additional credit under this
27 subdivision must first receive certification from the Arizona commerce
28 authority pursuant to section 41-1507.01. The additional credit amount
29 under this subdivision shall not exceed the amount allowed based on actual
30 basic research payments or the department's certification, whichever is
31 less. If an application, if certified in full, would exceed the ten
32 million dollar limit, the department shall certify only an amount within
33 that limit. After the limit is attained, the department shall deny any
34 subsequent applications regardless of whether other certified amounts are
35 not actually claimed as a credit or other taxpayers fail to qualify to
36 actually claim certified amounts. Notwithstanding subsections B and D of
37 this section, any amount of the additional credit under this subdivision
38 that exceeds the taxes otherwise due under this title is not refundable,
39 but may be carried forward to the next five consecutive taxable years.
40 For the purposes of this subdivision, "basic research payments" and
41 "qualified organization base period amount" have the same meanings
42 prescribed by section 41(e) of the internal revenue code.

43 2. Qualified research includes only research conducted in this
44 state, including research conducted at a university in this state and paid
45 for by the taxpayer.

1 3. If two or more taxpayers, including corporate partners in a
2 partnership, share in the eligible expenses, each taxpayer is eligible to
3 receive a proportionate share of the credit.

4 4. The credit under this section applies only to expenses incurred
5 from and after December 31, 1993.

6 5. The termination provisions of section 41 of the internal revenue
7 code do not apply.

8 B. Except as provided by subsection D of this section, if the
9 allowable credit under this section exceeds the taxes otherwise due under
10 this title on the claimant's income, or if there are no taxes due under
11 this title, the amount of the credit not used to offset taxes may be
12 carried forward to the next fifteen consecutive taxable years. The amount
13 of credit carryforward from taxable years beginning from and after
14 December 31, 2000 through December 31, 2002 that may be used under this
15 subsection in any taxable year may not exceed the taxpayer's tax liability
16 under this title or five hundred thousand dollars, whichever is less,
17 minus the credit under this section for the current taxable year's
18 qualified research expenses. The amount of credit carryforward from
19 taxable years beginning from and after December 31, 2002 that may be used
20 under this subsection in any taxable year may not exceed the taxpayer's
21 tax liability under this title minus the credit under this section for the
22 current taxable year's qualified research expenses. A taxpayer that
23 carries forward any amount of credit under this subsection may not
24 thereafter claim a refund of any amount of the credit under subsection D
25 of this section.

26 C. If a taxpayer has qualified research expenses that are carried
27 forward from taxable years beginning before January 1, 2001, the amount of
28 the expenses carried forward shall be converted to a credit carryforward
29 by multiplying the amount of the qualified expenses carried forward by
30 twenty ~~per cent~~ PERCENT. A credit carryforward determined under this
31 subsection may be carried forward to not more than fifteen years from the
32 year in which the expenses were incurred. The amount of credit
33 carryforward from taxable years beginning before January 1, 2001 that may
34 be used under this subsection in any taxable year may not exceed the
35 taxpayer's tax liability under this title or five hundred thousand
36 dollars, whichever is less, minus the credit under this section for the
37 current taxable year's qualified research expenses. The total amount of
38 credit carryforward from taxable years beginning before January 1, 2003
39 that may be used in any taxable year under subsection B and this
40 subsection may not exceed the taxpayer's tax liability under this title or
41 five hundred thousand dollars, whichever is less, minus the credit under
42 this section for the current taxable year's qualified research expenses.

43 D. For taxable years beginning from and after December 31, 2009, if
44 a taxpayer ~~who~~ THAT claims a credit under this section employs fewer than
45 one hundred fifty persons in the taxpayer's trade or business and if the

1 allowable credit under this section exceeds the taxes otherwise due under
2 this title on the claimant's income, or if there are no taxes due under
3 this title, in lieu of carrying the excess amount of credit forward to
4 subsequent taxable years under subsection B of this section, the taxpayer
5 may elect to receive a refund as follows:

6 1. The taxpayer must apply to the Arizona commerce authority for
7 qualification for the refund pursuant to section 41-1507 and submit a copy
8 of the authority's certificate of qualification to the department of
9 revenue with the taxpayer's income tax return.

10 2. The amount of the refund is limited to seventy-five ~~per cent~~
11 PERCENT of the amount by which the allowable credit under this section
12 exceeds the taxpayer's tax liability under this title for the taxable
13 year. The remainder of the excess amount of the credit is waived.

14 3. The refund shall be paid in the manner prescribed by section
15 42-1118.

16 4. The refund is subject to setoff under section 42-1122.

17 5. If the department determines that a credit refunded pursuant to
18 this subsection is incorrect or invalid, the excess credit issued may be
19 treated as a tax deficiency pursuant to section 42-1108.

20 E. A taxpayer that claims a credit for increased research and
21 development activity under this section shall not claim a credit under
22 section 43-1164.02 for the same expenses.

23 Sec. 11. Effective date

24 This act is effective from and after December 31, 2017.