House Engrossed Senate Bill

FILED
MICHELE REAGAN
SECRETARY OF STATE

State of Arizona
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CHAPTER 178

SENATE BILL 1291

AN ACT

AMENDING SECTIONS 41-1512, 42-3401, 42-3402, 42-3403 AND 42-5076, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY SENATE BILL 1010, SECTION 13, FIFTY-THIRD LEGISLATURE, FIRST REGULAR SESSION, AS TRANSMITTED TO THE GOVERNOR; AMENDING SECTIONS 42-6009, 42-6053, 42-6108, 42-13302, 42-13351, 43-405, 43-581, 43-1021, 43-1022, 43-1029, 43-1041, 43-1071, 43-1096, 43-1121, 43-1122, 43-1123, 43-1127, 43-1130.01, 43-1502 AND 43-1602, ARIZONA REVISED STATUTES; AMENDING LAWS 2014, CHAPTER 168, SECTION 12; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

Section 1. Section 41-1512, Arizona Revised Statutes, is amended to read:

41-1512. Qualified facility income tax credits; qualification; definitions

A. For taxable years beginning from and after December 31, 2012, income tax credits are allowed for expanding or locating a qualified facility in this state pursuant to sections 43-1083.03 and 43-1164.04. Only capital investments in a qualified facility that are made on or after July 1, 2012 are included in the computation of the credit.

B. To be eligible for the income tax credits, a taxpayer must apply to the authority, on a form prescribed by the authority, for preapproval of the business as qualifying for the credits. The application must include:

1. The applicant's name, address, telephone number and federal taxpayer identification number or numbers.

2. The name, address, telephone number and e-mail address of a contact person for the applicant.

3. The address of the site where the qualified facility will be located.

4. A detailed description of the qualified facility and fixed capital assets.

5. An estimate of the capital investment and number of employment positions at the qualified facility, including:

(a) A schedule of qualifying investments.

(b) A list of full-time employment positions, the estimated number of employees to be hired for the positions each year during the first five years of operation and the annual wages for each position, calculated without employee-related benefits.

6. A nonrefundable processing fee in an amount determined by the authority.

7. Other information as required by the authority to determine eligibility for the income tax credits and the amount of income tax credits, as prescribed by this section.

8. An affirmation, signed by an authorized executive representing the business, that the applicant:

(a) Agrees to furnish records of expenditures for qualifying investments to the authority on request.

(b) Will continue in business at the qualified facility for five full calendar years after postapproval for the credit, other than for reasons beyond the control of the applicant.

(c) Agrees to furnish to the authority information regarding the amount of income tax credits claimed each year.

(d) Authorizes the department of revenue to provide tax information to the authority pursuant to section 42-2003 for the purpose of determining any inconsistency in information furnished by the applicant.

(e) Agrees to allow site visits and audits to verify the applicant's continuing qualification and the accuracy of information submitted to the authority.

(f) Consents to the adjustment or recapture of any amount of income tax credit due to noncompliance with this section.

9. Letters of good standing from the department of revenue stating that the applicant is not delinquent in the payment of taxes.

C. The applicant may qualify for the income tax credits pursuant to section 43-1083.03 or 43-1164.04, as applicable, if:

1. The applicant makes new capital investment in this state after June 30, 2012 in a qualified facility that is completed in a taxable year beginning from and after December 31, 2012.

2. At least fifty-one percent of the net new full-time employment positions at the qualified facility pay a wage that equals or exceeds one hundred twenty-five percent, or one hundred percent in the case of a qualified facility in a rural location, of the median annual wage for production occupations in this state, as determined by the most recent annual Arizona commerce authority occupational wage and employment estimates issued before the preapproval is issued pursuant to subsection I of this section.

3. All net new full-time employment positions include health insurance coverage for the employees for which the applicant pays at least sixty-five percent of the premium or membership cost.

D. Final eligibility for an income tax credit is subject to any additional requirements prescribed by section 43-1083.03 or 43-1164.04, as applicable.

E. An applicant may separately apply and qualify with respect to investments for separate expansions of a qualified facility.

F. The amount of the income tax credit to be preapproved by the authority to a qualifying applicant is ten percent of the lesser of:

1. The amount the applicant has projected in total qualifying investment in the qualified facility.

2. Two hundred thousand dollars for each net new full-time employment position projected by the applicant at a qualified facility.

G. Beginning with income tax credits allocated for 2013, an approved credit:

1. Must be claimed on a timely filed original income tax return, including extensions.

2. Must be claimed in five equal installments as provided by section 43-1083.03 or 43-1164.04.

H. The authority shall establish a process for qualifying and preapproving applicants for the income tax credits. The authority shall

not preapprove applicants as qualifying for credits under this section for any taxable year beginning from and after December 31, 2022. Preapproval is based on:

1. Priority placement established by the date that the applicant files its initial application with the authority.

2. The availability of income tax credit capacity under the dollar limit prescribed by section 41-1511, subsection J.

I. Within thirty days after receiving a complete and correct application, the authority shall review the application to determine whether the applicant satisfies all of the criteria prescribed by this section and either preapprove the project as qualifying for the purposes of an income tax credit or provide reasons for its denial. The authority shall send copies of each preapproval to the department of revenue.

J. The authority shall not preapprove income tax credits under this section and section 41-1511 that combined would exceed ~~the limits prescribed by section 41-1511, subsection J~~ SEVENTY MILLION DOLLARS IN ANY CALENDAR YEAR. A preapproved amount applies against the dollar limit for the year in which the application was submitted regardless of whether the initial preapproval period extends into the following year or years. A business shall not be preapproved for credits under both this section and section 41-1511 for the same capital investment. The authority shall not preapprove income tax credits under this section for any taxpayer in excess of thirty million dollars in any calendar year.

K. The authority shall reallocate the amount of income tax credits that are voluntarily relinquished under subsection L of this section, that lapse under subsection M of this section or that lapse under subsection P of this section. The reallocation shall be to other businesses that applied under this section or section 41-1511 in the original credit year based on priority placement. Once reallocated, the amount of the credit applies against the dollar limit of the original credit year regardless of the year in which the reallocation occurs.

L. A taxpayer may voluntarily relinquish unused credit amounts in writing to the authority.

M. Preapproval under this section lapses, the application is void and the amount of the preapproved income tax credits does not apply against the dollar limit prescribed by section 41-1511, subsection J if, within twelve months after preapproval, the business fails to provide to the authority documentation of its expenditure of two hundred fifty thousand dollars in qualifying investment or, if the period over which the qualifying investment will be made exceeds twelve months, documentation of additional expenditures as required in this subsection for each twelve-month period.

N. After October 31 of each year, if the authority has preapproved the maximum calendar year income tax credit amount pursuant to section 41-1511, subsection J, the authority may accept initial applications for

the next calendar year, but the preapproval of any application pursuant to this subsection shall not be effective before the first business day of the following calendar year.

O. Before an applicant applies for postapproval under subsection P of this section, the applicant must enter into a written managed review agreement with the chief executive officer of the authority that establishes the requirements of a managed review to be conducted under this subsection at the applicant's expense. The managed review must be conducted by a certified public accountant who is selected by the applicant, who is licensed in this state or who has a limited reciprocity privilege pursuant to section 32-725 and who is approved by the chief executive officer. The certified public accountant and the firm the certified public accountant is affiliated with shall not regularly perform services for the applicant or its affiliates. The managed review shall include an analysis of the applicant's invoices, checks, accounting records and other documents and information to verify its base investment and other requirements prescribed by section 43-1083.03 or 43-1164.04 to confirm the amount of credit. The certified public accountant shall furnish written findings of the managed review to the chief executive officer. The chief executive officer shall review the findings and may examine records and perform other reviews that the chief executive officer considers necessary to verify that the managed review substantially conforms to the terms of the managed review agreement. The chief executive officer shall accept or reject the findings of the managed review. If the chief executive officer rejects all or part of the managed review, the chief executive officer shall provide written reasons for the rejection.

P. When the qualified facility begins operations, a business that was preapproved for income tax credits under this section shall apply to the authority in writing for postapproval of the credits and submit documentation certifying the total amount and dates of the qualifying investments and identifying the fixed capital assets associated with the qualified facility incurred after June 30, 2012 through the date of application for postapproval. For taxable years beginning from and after December 31, 2012, the authority shall provide postapproval to a business that has met the eligibility requirements of this section and shall notify the department of revenue that the business may claim an income tax credit pursuant to section 43-1083.03 or 43-1164.04. If the amount of qualifying investment actually spent is less than the amount preapproved for income tax credits, the preapproved amount not incurred lapses and does not apply against the dollar limit prescribed by section 41-1511, subsection J for that year. The department of revenue shall not allow an income tax credit under section 43-1083.03 or 43-1164.04 that exceeds the amount of the postapproval for the project under this subsection. For the purposes of

this subsection, "begins operations" means the qualified facility opens for public business.

Q. The authority may rescind an applicant's postapproval if the business no longer meets the terms and conditions required for qualifying for the credit. The authority may give special consideration, or allow temporary exemption from recapture of the credit, in the case of extraordinary hardship due to factors beyond the control of the qualifying business.

R. If the authority rescinds an applicant's preapproval or postapproval under subsection Q of this section, it shall notify the department of revenue of the action and the conditions of noncompliance. If the department of revenue obtains information indicating a possible failure to qualify and comply, it shall provide that information to the authority. The department of revenue may require the business to file appropriate amended tax returns reflecting any recapture of the credit under section 43-1083.03 or 43-1164.04.

S. Preapproval and postapproval of an applicant for the purposes of income tax credits under this section do not constitute or imply compliance with any other provision of law or any regulatory rule, order, procedure, permit or other measure required by law. To maintain qualification for a credit under this section, a business must separately comply with all environmental, employment and other regulatory measures.

T. For five years after postapproval of an income tax credit under this section, in any action involving the liquidation of the business assets or relocation out of state, this state claims the position of a secured creditor of the business in the amount of the credit the business received pursuant to section 43-1083.03 or 43-1164.04. The transfer of part or all of a company's assets that are then leased back by the company is not considered a liquidation under this section.

U. Any information gathered from a business for the purposes of this section is considered to be confidential taxpayer information and shall be disclosed only as provided in section 42-2003, subsection B, paragraph 12, except that the authority shall publish the following information in its annual report:

1. The name of each business and the amount of income tax credits preapproved for each qualifying investment.

2. The amount of income tax credits postapproved with respect to each qualifying investment.

V. The authority shall:

1. Keep annual records of the information provided on applications for qualified facilities. These records shall reflect a percentage comparison of the annual amount of monies credited to qualified facilities to the estimated amount of monies spent in this state in the form of qualifying investments.

2. Maintain annual data on growth in this state of qualified facilities and related employment and wages.

3. Not later than April 30 following each calendar year, prepare and publish a report summarizing the information collected pursuant to this subsection. The authority shall make copies of the annual report available to the public on request.

W. The authority shall adopt rules and prescribe forms and procedures as necessary for the purposes of this section. The authority and the department of revenue shall collaborate in adopting rules as necessary to avoid duplication and inconsistencies while accomplishing the intent and purposes of this section.

X. For the purposes of this section:

1. "Capital investment" means an expenditure to acquire, lease or improve property that is used in operating a business, including land, buildings, machinery, equipment and fixtures.

2. "Facility" means a single parcel or contiguous parcels of owned or leased land in this state, the structures and personal property contained on the land or any part of the structures occupied by the owner. Parcels that are separated only by a public thoroughfare or right-of-way are considered to be contiguous.

3. "Headquarters" means a principal central administrative office where primary headquarters related functions and services are performed, including financial, personnel, administrative, legal, planning and similar business functions.

4. "Manufacturing" means fabricating, producing or manufacturing raw or prepared materials into usable products, imparting new forms, qualities, properties and combinations. Manufacturing does not include generating electricity.

5. "Qualified facility" means a facility in this state that devotes at least eighty percent of the property and payroll at the facility to one or more of the following:

(a) Qualified manufacturing.

(b) Qualified headquarters.

(c) Qualified research.

6. "Qualified headquarters" means a global, national or regional headquarters for a taxpayer that is involved in manufacturing and that derives at least sixty-five percent of its revenue from out-of-state sales.

7. "Qualified manufacturing" means manufacturing tangible products in this state if at least sixty-five percent of the product will be sold ~~out-of-state~~ OUT OF STATE.

8. "Qualified research" has the same meaning prescribed by section 41(d) of the internal revenue code, as defined by section 43-105, except that the research must be conducted by a taxpayer involved in

manufacturing that derives at least sixty-five percent of its revenue from out-of-state sales.

9. "Qualifying investment" means investment in land, buildings, machinery, equipment and fixtures for expansion of an existing qualified facility or establishment of a new qualified facility in this state after June 30, 2012 for a facility completed in a taxable year beginning from and after December 31, 2012. If the qualified facility is a build-to-suit facility leased to the taxpayer, qualifying investment includes the costs prescribed in this paragraph that are spent by the third-party developer with respect to the qualified facility. Qualifying investment does not include relocating an existing qualified facility in this state to another location in this state without additional capital investment of at least two hundred fifty thousand dollars.

10. "Rural location" means a location that is within the boundaries of tribal lands or a city or town with a population of less than fifty thousand persons or a county with a population of less than eight hundred thousand persons.

Sec. 2. Section 42-3401, Arizona Revised Statutes, is amended to read:

42-3401. Tobacco distributor licenses; application; conditions; revocations, suspensions and cancellations

A. Every ~~distributor~~ PERSON acquiring or possessing for the purpose of making the initial sale or distribution in this state of any tobacco products on which a tax is imposed by this chapter shall obtain from the department a license to sell tobacco products. The application for the license shall be in the form provided by the department and shall be accompanied by a fee of twenty-five dollars for each place of business listed in the application. The form shall state that the identity of the applicant ~~may~~ WILL be posted to the department's website for public inspection. The application for a license shall include the applicant's name and address, the applicant's principal place of business, all other places of business where the applicant's business is conducted for the purpose of making the initial sale or distribution of tobacco products in this state, including any location that maintains an inventory of tobacco products, and any other information required by the department. If the applicant is a firm, partnership, limited liability company, limited liability partnership or association, the applicant shall list the name and address of each of the applicant's members. If the applicant is a corporation, the application shall list the name and address of the applicant's officers and any person who directly or indirectly owns an aggregate amount of ten percent or more of the ownership interest in the corporation. IF A LICENSEE IS A CORPORATION, FIRM, PARTNERSHIP, LIMITED LIABILITY COMPANY, LIMITED LIABILITY PARTNERSHIP OR ASSOCIATION, THE LICENSEE UNDER THIS SUBSECTION SHALL NOTIFY THE DEPARTMENT IN WRITING

WITHIN THIRTY DAYS AFTER ANY CHANGE IN MEMBERSHIP, LEGAL ENTITY STATUS OR OWNERSHIP OF MORE THAN FIFTY PERCENT OF THE TOTAL OWNERSHIP INTEREST IN A SINGLE TRANSACTION. If a licensee changes its business location, the licensee under this subsection shall notify the department within thirty days after a change in location. If the licensee is making a change in its business location by adding or replacing one or more additional places of business that are not currently listed on its application, the licensee must remit a fee of twenty-five dollars for each additional place of business.

B. For the purposes of subsection A of this section, an applicant with a controlling interest in more than one business engaged in activities as a distributor shall apply for a single license encompassing all such businesses and list each place of business in its application. For the purposes of this subsection, "controlling interest" means direct or indirect ownership of at least eighty percent of the voting shares of a corporation or of the interests in a company, business or person other than a corporation.

C. The department shall issue a license authorizing the applicant to acquire or possess tobacco products in this state ~~upon~~ ON the condition that the applicant complies with this chapter and the rules of the department. The license:

1. Shall be nontransferable. A licensee may not transfer its license to a new owner when selling its business, and any court-appointed trustee, receiver or other person shall obtain a license in its own name in cases of liquidation, insolvency or bankruptcy OR PURSUANT TO A COURT ORDER if the business remains in operation as a distributor of tobacco products. A licensee shall apply for a new license if it changes its legal entity status or otherwise changes the legal structure of its business.

2. Shall be valid for one year unless earlier revoked by the department.

3. Shall be displayed in a conspicuous place at the licensee's place of business. If the licensee operates from more than one place of business, the licensee must display a copy of its license in a conspicuous place at each location.

D. As a condition of licensure under this section, an applicant agrees to the following conditions:

1. A person may not hold or store any tobacco products, whether within or outside of this state, for sale or distribution in this state by or on behalf of a distributor at any place other than a location that has been disclosed to the department pursuant to subsection A of this section. This paragraph does not include a person holding or storing tobacco products by or on behalf of the distributor when the tobacco products are in transit to a distributor or retailer as part of a lawful sale.

2. All tobacco products held or stored, whether within or outside of this state, for sale or distribution in this state by or on behalf of a distributor:

(a) Shall be accessible to the department during normal business hours without a judicial warrant or prior written consent of the distributor. ~~, excluding~~

(b) MAY NOT BE HELD OR STORED AT A residential ~~locations~~ LOCATION OR IN A VEHICLE.

E. A person who is convicted of an offense described in section 42-1127, subsection E is permanently ineligible to hold a license issued under this section.

F. The department may not issue or renew a license to an applicant and may revoke a license issued under subsection C of this section if any of the following applies:

1. The applicant OR LICENSEE owes one thousand dollars or more in delinquent ~~cigarette~~ taxes IMPOSED ON TOBACCO PRODUCTS UNDER THIS CHAPTER that are not under protest or subject to a payment agreement.

2. The department has revoked any license held by the applicant OR LICENSEE within the previous two years.

3. The applicant OR LICENSEE has been convicted of a crime that relates to stolen or counterfeit cigarettes.

4. The applicant OR LICENSEE has imported cigarettes into the United States for sale or distribution in violation of 19 United States Code section 1681a.

5. The applicant OR LICENSEE has imported cigarettes into the United States for sale or distribution without fully complying with the federal cigarette labeling and advertising act (P.L. 89-92; 79 Stat. 282; 15 United States Code section 1331).

6. The applicant OR LICENSEE is in violation of section 13-3711 or section 36-798.06, subsection A.

7. Pursuant to section 44-7111, section 6(a), the applicant OR LICENSEE is in violation of section 44-7111, section 3(c).

8. The ~~applicant's~~ civil rights OF THE APPLICANT OR LICENSEE have been suspended under section 13-904. An applicant whose civil rights have been suspended will be ineligible to hold a license for a period of five years following the restoration of the applicant's OR LICENSEE'S civil rights.

G. In addition to any other civil or criminal penalty and except as otherwise provided in this section, the department may suspend or revoke a license issued under subsection C of this section if the person violates any requirement under this title more than two times within a three-year period OR FAILS TO OTHERWISE MAINTAIN THE CONDITIONS OF LICENSURE IN THIS SECTION.

H. The department shall publish on its website the names of each person who is issued a license under subsection C of this section,

including any trade names or business names used by the licensee. The department shall update the published names at least once each month.

I. A person may not apply for or hold a distributor's license if that person does not engage in the activities described in subsection A of this section. In addition to any other applicable penalty, the department may:

1. Revoke the license of any licensee that fails to file a return or report required under this chapter for twelve consecutive months.

2. Cancel the license of any licensee that fails to incur any tax liability under this chapter for twelve consecutive months.

J. Any suspension, revocation, CANCELLATION or denial of a license issued under this section BY THE DEPARTMENT must comply with section 41-1092.11, subsection B.

K. Notwithstanding any other law, for the purposes of subsection F, paragraphs 1 and 2 of this section, section 42-1127, subsection C and section 42-3461, subsection B, if a distributor has listed in its application more than one place of business, any suspension, revocation, CANCELLATION or nonrenewal of ~~a~~ THE distributor's license shall apply only with effect to remove the place of business OR BUSINESS LOCATION at which the activity occurred ~~that resulted in the violation~~ from the distributor's license. If such a removal occurs, the distributor shall be subject to restrictions that the department prescribes by rule.

Sec. 3. Section 42-3402, Arizona Revised Statutes, is amended to read:

42-3402. Contraband tobacco products

Notwithstanding any other law to the contrary, tobacco products that are ordered, purchased or transported in violation of section 13-3711, 36-798.06 or 42-3461 or section 44-7111, section ~~3, subparagraph (c)~~ 3(c) or any other statute under which the tobacco products are subject to seizure and destruction are considered to be contraband for which taxes that are imposed under this chapter may not be reported and remitted BY A DISTRIBUTOR PURSUANT TO SECTIONS 42-3462 AND 42-3501 OR REPORTED BY A PERSON PURSUANT TO SECTION 42-3457, SUBSECTION B.

Sec. 4. Section 42-3403, Arizona Revised Statutes, is amended to read:

42-3403. Tobacco product retailers; vehicle as place of business prohibited; exceptions

A. A retailer may sell any tobacco product that is not otherwise prohibited by federal or state law from sale for resale, but a retailer may not acquire or possess unstamped cigarettes, or other tobacco products OR CIGARETTES on which taxes levied under this chapter have not been paid, unless the retailer holds a valid license issued under section 42-3401.

B. A ~~retailer~~ PERSON may not use a vehicle as a place of business for selling, TRANSFERRING OR OTHERWISE DISTRIBUTING tobacco products. This subsection does not prohibit the lawful delivery of tobacco products

by a person who holds a valid license issued under section 42-3401 using a vehicle that is owned, operated or contracted by that person.

C. This section does not prohibit business activities that are permitted under sections 42-3454 and 42-3502 FOR BOTH TAXED AND UNTAXED TOBACCO PRODUCTS.

Sec. 5. Section 42-5076, Arizona Revised Statutes, is amended to read:

42-5076. Online lodging marketplace classification; definitions

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

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

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

D. For the purposes of this section:

1. "Online lodging marketplace" means a person that provides a digital platform for compensation through which an unaffiliated third party offers to rent lodging accommodations IN THIS STATE to an occupant, including a transient, as defined in section 42-5070, and the accommodations are not classified for property tax purposes under section 42-12001. For the purposes of this paragraph:

(a) "Lodging accommodations" means any space offered to the public for lodging, including any hotel, motel, inn, tourist home or house, dude ranch, resort, campground, studio or bachelor hotel, lodging house, rooming house, residential home, apartment house, dormitory, public or private club, mobile home or house trailer at a fixed location IN THIS STATE or other similar structure or space.

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

2. "Online lodging operator" means a person that is engaged in the business of renting to an occupant, including a transient as defined in section 42-5070, any lodging accommodation IN THIS STATE offered through an online lodging marketplace.

3. "Online lodging transaction" means a charge to an occupant, including a transient as defined in section 42-5070, by an online lodging operator for the occupancy of any lodging accommodation IN THIS STATE and includes an online transient lodging transaction.

4. "Online transient lodging transaction" means a charge to an occupant who is a transient as defined in section 42-5070 by an online

lodging operator for the occupancy of any lodging accommodation IN THIS STATE.

Sec. 6. Section 42-5159, Arizona Revised Statutes, as amended by Senate Bill 1010, section 13, fifty-third legislature, first regular session, as transmitted to the governor, is amended to read:

42-5159. Exemptions

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

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

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

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

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

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

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

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

8. Purchases of:

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

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

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

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

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

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

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

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

13. Tangible personal property purchased by:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15. Tangible personal property sold by:

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

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

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

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

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

18. Prescription eyeglasses and contact lenses.

19. Insulin, insulin syringes and glucose test strips.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(b) Public educational institutions.

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

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

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

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

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

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

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

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

(a) "Overhead materials" means tangible personal property, the gross proceeds of sales or gross income derived from which would otherwise be included in the retail classification, that is used or consumed in the

performance of a contract, the cost of which is charged to an overhead expense account and allocated to various contracts based on generally accepted accounting principles and consistent with government contract accounting standards.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) "Cash equivalents" means items, whether or not negotiable, that are sold to one or more persons, through which a value denominated in

money is purchased in advance and that may be redeemed in full or in part for tangible personal property, intangibles or services. Cash equivalents include gift cards, stored value cards, gift certificates, vouchers, traveler's checks, money orders or other tangible instruments or orders. Cash equivalents do not include either of the following:

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

(ii) Prepaid calling cards for telecommunications services.

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

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

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

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

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

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

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

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

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

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

(a) A person:

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

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

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

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

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

(b) Any foreign government.

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

8. Machinery, tools, equipment and related supplies used or consumed directly in repairing, remodeling or maintaining aircraft,

aircraft engines or aircraft component parts by or on behalf of a certificated or licensed carrier of persons or property.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18. Machinery or equipment, including related structural components, that is employed in connection with manufacturing, processing, fabricating, job printing, refining, mining, natural gas pipelines, metallurgical operations, telecommunications, producing or transmitting electricity or research and development and that is used directly to meet

or exceed rules or regulations adopted by the federal energy regulatory commission, the United States environmental protection agency, the United States nuclear regulatory commission, the Arizona department of environmental quality or a political subdivision of this state to prevent, monitor, control or reduce land, water or air pollution.

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

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

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

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

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

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

22. MACHINERY, EQUIPMENT, MATERIALS AND OTHER TANGIBLE PERSONAL PROPERTY USED DIRECTLY AND PREDOMINANTLY TO CONSTRUCT A QUALIFIED ENVIRONMENTAL TECHNOLOGY MANUFACTURING, PRODUCING OR PROCESSING FACILITY AS DESCRIBED IN SECTION 41-1514.02. THIS PARAGRAPH APPLIES FOR TEN FULL CONSECUTIVE CALENDAR OR FISCAL YEARS AFTER THE START OF INITIAL CONSTRUCTION.

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

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

2. Janitorial equipment and hand tools.

3. Office equipment, furniture and supplies.

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

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

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

7. Motors and pumps used in drip irrigation systems.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. "Aircraft" includes:

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

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

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

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

Sec. 7. Section 42-6009, Arizona Revised Statutes, is amended to read:

42-6009. Online lodging; definitions

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

B. In the case of an online lodging marketplace that is licensed pursuant to section 42-5005, subsection L, a city, town or other taxing jurisdiction may levy a transaction privilege, sales, use, franchise or other similar tax or fee as provided by the model city tax code on the online lodging marketplace subject to the following conditions:

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

(a) The adopted tax rate may be different from the state tax rate prescribed by section 42-5010.

(b) The adopted tax may apply to online lodging transactions involving rentals of lodging accommodations IN THE CITY, TOWN OR OTHER TAXING JURISDICTION for more than twenty-nine consecutive days. With respect to any tax on rentals of lodging accommodations for more than twenty-nine consecutive days, in the case of an online lodging marketplace that has registered pursuant to section 42-5005, subsection L, the adopted tax must uniformly apply to all lodging accommodations IN THE CITY, TOWN

OR OTHER TAXING JURISDICTION for thirty consecutive days or more, and the tax base for the tax must be limited exclusively to online lodging transactions facilitated by an online lodging marketplace for rentals of lodging accommodations for thirty consecutive days or more and located in the applicable city, town or other taxing jurisdiction.

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

3. The adopted tax must be uniform on online lodging marketplaces, online lodging operators and other taxpayers of the same class within the jurisdictional boundaries of the city, town or other taxing jurisdiction.

4. Any adopted tax is subject to:

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

(b) Section 42-2003, subsection Y, relating to confidential information.

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

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

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

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

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

Sec. 8. Section 42-6053, Arizona Revised Statutes, is amended to read:

42-6053. Official copy of model city tax code; review and comment on proposed changes

A. The department of revenue shall:

1. Maintain the official copy of the model city tax code.

2. Post the official copy on the department's official website.

B. At least sixty days before adopting any modification or amendment of the model city tax code, a city or town shall submit the proposed modification or amendment to the municipal tax code commission for review and recommendation.

C. The commission shall review and comment on language submitted by any city, town or taxpayer OR THE DEPARTMENT OF REVENUE for the purpose of describing, defining, deleting, adding or otherwise modifying taxable activities, exemptions, administrative procedures or regulations relating to the model city tax code. The commission may hold public hearings

within thirty days after receiving a proposed amendment or modification for the purpose of reviewing and receiving comments on the proposed changes, shall consider any information and testimony presented at the hearing, may require changes to the language presented at the hearing and may require changes to the language presented by the city, ~~or~~ town, ~~or~~ taxpayer OR DEPARTMENT. All changes to the model city tax code must be reflected in the official copy on file with the department of revenue within ten days after the commission's approval. Any changes not reflected in the official copy on file with the department of revenue are void and have no effect.

D. Changes to the model city tax code approved by the commission shall be adopted by all cities and towns. This requirement ~~shall~~ DOES not ~~be construed to~~ prohibit the commission from recommending a model or local option or changes to a model or local option contained in the model city tax code to be adopted only by those cities and towns choosing the option or from approving a change submitted by a city or town that does not apply to any other city or town. The city or town shall not adopt a modification or amendment of any provision of the model city tax code unless it has been approved by the commission.

E. Changes in rates of tax are not subject to review, but within ten days after passage of the ordinance imposing a rate change:

1. The city or town imposing a new or different tax rate shall notify the commission and the department of revenue. Failure of a city or town to notify the commission and, beginning July 1, 2012, the department of revenue renders the new or different tax rate void and ~~has~~ OF no effect. For the purposes of this ~~subsection~~ PARAGRAPH, a "new or different tax rate" means the adoption or repeal of a model or local option or any change that increases the amount of tax a taxpayer must pay to a city or town.

2. The change must be reflected in the official copy of the model city tax code. Any change not reflected in the official copy of the model city tax code is void and has no effect.

Sec. 9. Section 42-6108, Arizona Revised Statutes, is amended to read:

42-6108. Tax on hotels

A. The board of supervisors of a county having a population of less than two million five hundred thousand but more than five hundred thousand persons may levy and, if levied, the department shall collect a tax on the gross proceeds of sales or gross income from the business of every person engaging or continuing in the county in a business taxed under chapter 5 of this title and classified under section 42-5070 OR 42-5076. The tax shall be levied under this section beginning January 1 or July 1, whichever date first occurs at least three months after the county resolution approving the tax levy. The rate of tax shall not exceed six per cent.

B. The tax only applies in unincorporated areas of the county.

C. At the end of each month the state treasurer shall transmit the net revenues collected pursuant to this section to the treasurer of the county levying the tax. The county shall use:

1. Not more than thirty-four ~~per cent~~ PERCENT of these revenues for the purposes set forth in section 48-4204, subsection A, as financial participation by the county as required by that subsection.

2. Not more than sixteen ~~per cent~~ PERCENT of these revenues for the purposes of economic development under section 11-254.04. Any increase in tax imposed under this section shall not constitute a new tax for the purposes of section 11-254.04, subsection B.

3. All remaining revenues to promote and enhance tourism through the recognized tourism promotion agency in the county.

Sec. 10. Section 42-13302, Arizona Revised Statutes, is amended to read:

42-13302. Determining limited value in cases of omissions and changes

A. In the following circumstances the limited property value shall be established at a level or percentage of full cash value that is comparable to that of other properties of the same or similar use or classification:

1. Property that was erroneously totally or partially omitted from the property tax rolls in the preceding tax year.

2. Property for which a change in use has occurred since the preceding tax year.

3. Property that has been modified by construction, destruction or demolition since the preceding valuation year.

4. Property that has been split, subdivided or consolidated from January 1 through September 30 of the valuation year, except for cases that result from an action initiated by a governmental entity.

B. In the case of property that is split, SUBDIVIDED or consolidated after September 30 through December 31 of the valuation year, except for cases that result from an action initiated by a governmental entity, the total limited property value of the new parcel or parcels shall be the same as the total limited property value of the original parcel or parcels. For the following valuation year, the limited property value shall be established at a level or percentage of full cash value that is comparable to that of other properties of the same or similar use or classification. The new parcel or parcels shall retain the same value-adding characteristics that applied to the original parcel before being split or consolidated, except as provided in subsection A, paragraph 3 of this section.

C. In the case of property that was split, subdivided or consolidated from January 1 through September 30 of the valuation year as

a result of an action initiated by a governmental entity, the limited value is the lower of either:

1. The level or percentage of full cash value that is comparable to that of other properties of the same or similar use or classification.

2. The total limited value for the original parcel or parcels as determined under section 42-13301, and in the following valuation year, the limited property value shall be established pursuant to section 42-13301.

D. In the case of property that was split, subdivided or consolidated after September 30 through December 31 of the valuation year as a result of an action initiated by a governmental entity, the total limited value for the resulting parcel or parcels is the same as the total limited value for the original parcel or parcels as determined under section 42-13301, and in the following valuation year, the limited property value shall be established as the lower of either:

1. The level or percentage of full cash value that is comparable to that of other properties of the same or similar use or classification.

2. The limited property value established pursuant to section 42-13301.

Sec. 11. Section 42-13351, Arizona Revised Statutes, is amended to read:

42-13351. Method and procedures for valuing property of manufacturers, assemblers or fabricators; confidentiality

A. Real or personal property that is subject to valuation for property tax purposes and that is used by any manufacturer, assembler or fabricator of tangible personal property, except property that is included in class one, paragraphs 1 through 9 and paragraphs 11~~, 12 and 13,~~ THROUGH 14 and classes two, three, four, five, six, seven, eight or nine, shall be valued pursuant to this article.

B. All information that a taxpayer submits pursuant to this article is confidential pursuant to chapter 2, article 1 of this title.

Sec. 12. Section 43-405, Arizona Revised Statutes, is amended to read:

43-405. Extension of withholding to gambling winnings

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

1. The Arizona state lottery commission under title 5, chapter 5.1.

2. A permittee conducting horse or dog racing under title 5, chapter 1.

B. The lottery commission and permittees shall deduct and withhold from each payment of prize winnings MADE TO AN INDIVIDUAL an amount equal

to twenty ~~per cent~~ PERCENT of the amount withheld pursuant to section 1441 or section 3402(q) of the internal revenue code and pay that amount to the department pursuant to this article.

Sec. 13. Section 43-581, Arizona Revised Statutes, is amended to read:

43-581. Payment of estimated tax; penalty; forms

A. An individual who is subject to the tax imposed by this title and whose Arizona gross income, as defined by section 43-1001, or as described by section 43-1091 in the case of nonresidents, for the taxable year exceeds seventy-five thousand dollars or one hundred fifty thousand dollars if a joint return is filed and whose Arizona gross income was greater than seventy-five thousand dollars in the preceding taxable year or one hundred fifty thousand dollars in the preceding taxable year if a joint return is filed~~,~~ shall make payments of estimated tax during the individual's ~~tax~~ TAXABLE year. The amount of the payments of estimated tax shall be an amount ~~which~~ THAT reasonably reflects a taxpayer's Arizona income tax liability ~~which~~ THAT will be unpaid at the end of the taxpayer's ~~tax~~ TAXABLE year. This amount shall be paid in four installments on or before the due dates established by the internal revenue code and shall total, when combined with the taxpayer's withholding tax, at least ninety ~~per cent~~ PERCENT of the tax due for the current taxable year or one hundred ~~per cent~~ PERCENT of the tax due for the preceding taxable year.

B. Any other individual who is subject to the tax imposed by this title may make payments of estimated tax during ~~such~~ THE individual's ~~tax~~ TAXABLE year. The amount of any ~~payment of~~ estimated tax PAYMENTS FOR THE TAXABLE YEAR shall be ~~either:~~

~~1. If payments of estimated tax are made pursuant to the internal revenue code, ten, fifteen or twenty per cent of the amount paid to the internal revenue service as estimated tax computed pursuant to the internal revenue code and the income tax act of 1954, as amended, to be paid on or before the due dates established by the internal revenue code.~~

~~2. If no federal estimated tax payments are required to be made,~~ an amount ~~which~~ THAT reasonably reflects a taxpayer's Arizona income tax liability ~~which~~ THAT will be unpaid at the end of ~~such~~ THE taxpayer's ~~tax~~ TAXABLE year.

C. The department shall prescribe rules for the payments of estimated tax ~~which~~ THAT shall provide for estimated payments in a manner similar to the manner prescribed in the internal revenue code.

D. If the taxpayer does not pay the estimated tax required by subsection A of this section on or before the prescribed dates, there is assessed and the department shall collect a penalty ~~upon~~ ON the unpaid amount as prescribed by section 42-1125, subsection Q. No penalties or interest shall be assessed or collected if either of the following applies:

1. The estimated tax payments made pursuant to this section are allowable exceptions under section 6654 of the internal revenue code.

2. The taxpayer's Arizona income tax liability due on the taxpayer's return is less than one thousand dollars. For the purposes of this paragraph, "Arizona income tax liability due on the taxpayer's return" means the amount of tax due on the return minus the amount of Arizona income tax withheld and tax credits claimed by the taxpayer.

E. The department shall make available suitable forms and instructions to taxpayers who make estimated tax payments pursuant to this article.

Sec. 14. Section 43-1021, Arizona Revised Statutes, is amended to read:

43-1021. Addition to Arizona gross income

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

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

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

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

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

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

~~6. The amount by which the adjusted basis of property described in this paragraph and computed pursuant to the internal revenue code exceeds the adjusted basis of such property computed pursuant to this title and the income tax act of 1954, as amended. This paragraph shall apply to all property that is held for the production of income and that is sold or otherwise disposed of during the taxable year, except depreciable property used in a trade or business.~~

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

~~8.~~ 7. The amount by which the depreciation or amortization computed under the internal revenue code with respect to property for which a credit was taken under section 43-1080 exceeds the amount of depreciation or amortization computed pursuant to the internal revenue code on the Arizona adjusted basis of the property.

~~9.~~ 8. The amount by which the adjusted basis computed under the internal revenue code with respect to property for which a credit was claimed under section 43-1080 and that is sold or otherwise disposed of during the taxable year exceeds the adjusted basis of the property computed under section 43-1080.

~~10.~~ 9. The amount by which the depreciation or amortization computed under the internal revenue code with respect to property for which a credit was taken under either section 43-1081 or 43-1081.01 exceeds the amount of depreciation or amortization computed pursuant to the internal revenue code on the Arizona adjusted basis of the property.

~~11.~~ 10. The amount by which the adjusted basis computed under the internal revenue code with respect to property for which a credit was claimed under section 43-1074.02, 43-1081 or 43-1081.01 and that is sold or otherwise disposed of during the taxable year exceeds the adjusted basis of the property computed under section 43-1074.02, 43-1081 or 43-1081.01, as applicable.

~~12.~~ 11. The deduction referred to in section 1341(a)(4) of the internal revenue code for restoration of a substantial amount held under a claim of right.

~~13.~~ 12. The amount by which a net operating loss carryover or capital loss carryover allowable pursuant to section 1341(b)(5) of the internal revenue code exceeds the net operating loss carryover or capital loss carryover allowable pursuant to section 43-1029, subsection F.

~~14.~~ 13. Any amount deducted in computing Arizona gross income as expenses for installing solar stub outs or electric vehicle recharge outlets in this state with respect to which a credit is claimed pursuant to section 43-1090.

~~15.~~ 14. Any wage expenses deducted pursuant to the internal revenue code for which a credit is claimed under section 43-1087 and representing net increases in qualified employment positions for employment of temporary assistance for needy families recipients.

~~16.~~ 15. The amount of any depreciation allowance allowed pursuant to section 167(a) of the internal revenue code to the extent not previously added.

~~17.~~ 16. With respect to property for which an expense deduction was taken pursuant to section 179 of the internal revenue code in a taxable

year beginning before January 1, 2013, the amount in excess of twenty-five thousand dollars.

~~18.~~ 17. The amount of a nonqualified withdrawal, as defined in section 15-1871, from a college savings plan established pursuant to section 529 of the internal revenue code that is made to a distributee to the extent the amount is not included in computing federal adjusted gross income, except that the amount added under this paragraph shall not exceed the difference between the amount subtracted under section 43-1022 in prior taxable years and the amount added under this section in any prior taxable years.

~~19.~~ 18. The amount of discharge of indebtedness income that is deferred and excluded from the computation of federal adjusted gross income in the current taxable year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5).

~~20.~~ 19. The amount of any previously deferred original issue discount that was deducted in computing federal adjusted gross income in the current year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was previously subtracted from Arizona gross income pursuant to section 43-1022, paragraph ~~24~~ 23.

~~21.~~ 20. Amounts that are considered to be income under section 43-1032, subsection D because the amount is withdrawn from a long-term health care savings account and not used to pay the taxpayer's long-term health care expenses.

~~22. The amount of a withdrawal that is not a qualified disability expense as defined in 26 United States Code section 529A and any regulations issued pursuant to that section from an achieving a better life experience act account established pursuant to 26 United States Code section 529A and any regulations issued pursuant to that section that is made to a distributee to the extent the amount is not included in computing federal adjusted gross income, except that the amount added under this paragraph shall not exceed the difference between the amount subtracted under section 43-1022 in prior taxable years and the amount added under this section in any prior taxable years.~~

Sec. 15. Section 43-1022, Arizona Revised Statutes, is amended to read:

43-1022. Subtractions from Arizona gross income

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

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

2. Benefits, annuities and pensions in an amount totaling not more than two thousand five hundred dollars received from one or more of the following:

(a) The United States government service retirement and disability fund, retired or retainer pay of the uniformed services of the United States, the United States foreign service retirement and disability system and any other retirement system or plan established by federal law.

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

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

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

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

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

~~7. The amount by which the adjusted basis of property described in this paragraph and computed pursuant to this title and the income tax act of 1954, as amended, exceeds the adjusted basis of such property computed pursuant to the internal revenue code. This paragraph shall apply to all property that is held for the production of income and that is sold or otherwise disposed of during the taxable year other than depreciable property used in a trade or business.~~

~~8.~~ 7. The amount allowed by section 43-1025 for contributions during the taxable year of agricultural crops to charitable organizations.

~~9.~~ 8. The portion of any wages or salaries paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal work opportunity credit, the empowerment zone employment credit, the credit for employer paid social security taxes on employee cash tips and the Indian employment credit that the taxpayer received under sections 45A, 45B, 51(a) and 1396 of the internal revenue code.

~~10.~~ 9. The amount of prizes or winnings less than five thousand dollars in a single taxable year from any of the state lotteries established and operated pursuant to title 5, chapter 5.1, article 1.

~~11.~~ 10. The amount of exploration expenses that is determined pursuant to section 617 of the internal revenue code, that has been deferred in a taxable year ending before January 1, 1990 and for which a

subtraction has not previously been made. The subtraction shall be made on a ratable basis as the units of produced ores or minerals discovered or explored as a result of this exploration are sold.

~~12.~~ 11. The amount included in federal adjusted gross income pursuant to section 86 of the internal revenue code, relating to taxation of social security and railroad retirement benefits.

~~13.~~ 12. To the extent not already excluded from Arizona gross income under the internal revenue code, compensation received for active service as a member of the reserves, the national guard or the armed forces of the United States, including compensation for service in a combat zone as determined under section 112 of the internal revenue code.

~~14.~~ 13. The amount of unreimbursed medical and hospital costs, adoption counseling, legal and agency fees and other nonrecurring costs of adoption not to exceed three thousand dollars. In the case of a husband and wife who file separate returns, the subtraction may be taken by either taxpayer or may be divided between them, but the total subtractions allowed both husband and wife shall not exceed three thousand dollars. The subtraction under this paragraph may be taken for the costs that are described in this paragraph and that are incurred in prior years, but the subtraction may be taken only in the year during which the final adoption order is granted.

~~15.~~ 14. The amount authorized by section 43-1027 for the taxable year relating to qualified wood stoves, wood fireplaces or gas fired fireplaces.

~~16.~~ 15. The amount by which a net operating loss carryover or capital loss carryover allowable pursuant to section 43-1029, subsection F exceeds the net operating loss carryover or capital loss carryover allowable pursuant to section 1341(b)(5) of the internal revenue code.

~~17.~~ 16. Any amount of qualified educational expenses that is distributed from a qualified state tuition program determined pursuant to section 529 of the internal revenue code and that is included in income in computing federal adjusted gross income.

~~18.~~ 17. Any item of income resulting from an installment sale that has been properly subjected to income tax in another state in a previous taxable year and that is included in Arizona gross income in the current taxable year.

~~19.~~ 18. The amount authorized by section 43-1030 relating to holocaust survivors.

~~20.~~ 19. For property placed in service:

(a) In taxable years beginning before December 31, 2012, an amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year computed as if the election described in section 168(k)(2)(D)(iii) of the internal revenue code had been made for each applicable class of property in the year the property was placed in service.

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

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

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

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

~~21.~~ 20. With respect to property that is sold or otherwise disposed of during the taxable year by a taxpayer that complied with section 43-1021, paragraph ~~16~~ 15 with respect to that property, the amount of depreciation that has been allowed pursuant to section 167(a) of the internal revenue code to the extent that the amount has not already reduced Arizona taxable income in the current or prior taxable years.

~~22.~~ 21. With respect to property for which an adjustment was made under section 43-1021, paragraph ~~17~~ 16, an amount equal to one-fifth of the amount of the adjustment pursuant to section 43-1021, paragraph ~~17~~ 16 in the year in which the amount was adjusted under section 43-1021, paragraph ~~17~~ 16 and in each of the following four years.

~~23.~~ 22. The amount contributed during the taxable year to college savings plans established pursuant to section 529 of the internal revenue code to the extent that the contributions were not deducted in computing federal adjusted gross income. The amount subtracted shall not exceed:

(a) Two thousand dollars for a single individual or a head of household.

(b) Four thousand dollars for a married couple filing a joint return. In the case of a husband and wife who file separate returns, the subtraction may be taken by either taxpayer or may be divided between them, but the total subtractions allowed both husband and wife shall not exceed four thousand dollars.

~~24.~~ 23. The amount of any original issue discount that was deferred and not allowed to be deducted in computing federal adjusted gross income in the current taxable year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5).

~~25.~~ 24. The amount of previously deferred discharge of indebtedness income that is included in the computation of federal adjusted gross income in the current taxable year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was previously added to Arizona gross income pursuant to section 43-1021, paragraph ~~19~~ 18.

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

~~27.~~ 26. For taxable years beginning from and after December 31, 2013, the amount of any net capital gain included in federal adjusted gross income for the taxable year derived from investment in a qualified small business as determined by the Arizona commerce authority pursuant to section 41-1518.

~~28.~~ 27. An amount of any net long-term capital gain included in federal adjusted gross income for the taxable year that is derived from an investment in an asset acquired after December 31, 2011, as follows:

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

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

(c) For taxable years beginning from and after December 31, 2014, twenty-five percent of the net long-term capital gain included in federal adjusted gross income.

For the purposes of this paragraph, a transferee that receives an asset by gift or at the death of a transferor is considered to have acquired the asset when the asset was acquired by the transferor. If the date an asset is acquired cannot be verified, a subtraction under this paragraph is not allowed.

~~29.~~ 28. If an individual is not claiming itemized deductions pursuant to section 43-1042, the amount of premium costs for long-term care insurance, as defined in section 20-1691.

~~30.~~ 29. With respect to a long-term health care savings account established pursuant to section 43-1032, the amount deposited by the taxpayer in the account during the taxable year to the extent that the taxpayer's contributions are included in the taxpayer's federal adjusted gross income.

~~31. Any amount of qualified disability expenses that is distributed from a qualified ABLE program determined pursuant to 26 United States Code section 529A and any regulations issued pursuant to that section and that is included in income in computing federal adjusted gross income. For the purposes of this paragraph, "qualified disability expenses" has the same meaning prescribed in section 46-901.~~

Sec. 16. Section 43-1029, Arizona Revised Statutes, is amended to read:

43-1029. Restoration of a substantial amount held under claim of right; computation of tax

A. This section applies if:

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

2. A deduction would be allowable under the internal revenue code or this title for the taxable year, without application of section 1341(b)(3) of the internal revenue code or section 43-1021, paragraph ~~12~~ 11, because after the close of the prior taxable year or years it was established that the taxpayer did not have an unrestricted right to all or part of the item.

3. The amount of the deduction exceeds three thousand dollars.

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

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

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

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

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

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

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

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

(a) The loss shall be:

(i) Carried over under this chapter to the same extent and in the same manner as was provided under prior law for taxable years beginning on or before December 31, 1989.

(ii) Carried back and carried over to the same extent and in the same manner as provided under section 172 of the internal revenue code for taxable years beginning from and after December 31, 1989.

(b) No carryover beyond the taxable year may be taken into account.

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

(a) The loss shall be carried back and carried over to the same extent and in the same manner as is provided under section 1212 of the internal revenue code.

(b) No carryover beyond the taxable year may be taken into account.

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

Sec. 17. Section 43-1041, Arizona Revised Statutes, is amended to read:

43-1041. Optional standard deduction

A. A taxpayer may elect to take a standard deduction as follows:

1. In the case of a single person or a married person filing separately, the standard deduction shall be four thousand fifty dollars, subject to subsection G of this section.

2. In the case of a married couple filing a joint return or a single person who is a head of a household, the standard deduction shall be eight thousand one hundred dollars, subject to subsection G of this section.

B. The standard deduction provided for in subsection A of this section shall be in lieu of all itemized deductions allowed by section 43-1042, which are to be subtracted from Arizona adjusted gross income in computing taxable income, but not in lieu of the personal exemption allowed by section 43-1043.

C. The standard deduction shall be allowed if the taxpayer so elects~~, and the department shall by rule prescribe the manner of signifying such election in the return~~. THE ELECTION IS MADE BY THE TAXPAYER CLAIMING ON THE TAX RETURN THE AMOUNT PROVIDED FOR IN THIS SECTION IN LIEU OF THE ITEMIZED DEDUCTIONS ALLOWED UNDER SECTION 43-1042. ELECTING TO FILE A SHORT FORM RETURN OR A SIMPLIFIED RETURN THAT DOES NOT ALLOW ITEMIZED DEDUCTIONS TO BE CLAIMED IS CONSIDERED TO BE AN ELECTION TO CLAIM THE STANDARD DEDUCTION.

D. In the case of a husband and wife, the standard deduction provided for in subsection A of this section shall not be allowed to either if the taxable income of one of the spouses is determined without regard to the standard deduction.

E. The standard deduction provided for by subsection A of this section shall not be allowed in the case of a taxable year of less than twelve months on account of a change in the accounting period.

F. ~~Under rules adopted by the department,~~ EXCEPT AS PROVIDED IN SUBSECTION G OF THIS SECTION, a change of an election to take, or not to take, the standard deduction for any taxable year may be made after the filing of the return for such year. ~~If~~

G. A TAXPAYER IS NOT ALLOWED TO CHANGE AN ELECTION TO TAKE, OR NOT TO TAKE, THE STANDARD DEDUCTION IF:

1. The spouse of the taxpayer filed a separate return for any taxable year corresponding, for the purposes of subsection D of this section, to the taxable year of the taxpayer~~, the change shall not be allowed unless, in accordance with such rules, both paragraphs 1 and 2 of this subsection~~ UNLESS BOTH OF THE FOLLOWING apply:

~~1.~~ (a) The spouse makes a change of election with respect to the standard deduction for the taxable year covered in ~~such~~ THE separate return consistent with the change of election sought by the taxpayer.

~~2.~~ (b) The taxpayer and spouse consent in writing to the assessment, within such A period as may be agreed ~~upon~~ ON with the department, of any deficiency, to the extent attributable to ~~such~~ THE change of election, even though at the time of the filing of ~~such~~ THE

consent the assessment of ~~such~~ THE deficiency would otherwise be prevented by the operation of any law or rule of law.

2. THE TAX LIABILITY OF THE TAXPAYER OR THE TAXPAYER'S SPOUSE FOR THE TAXABLE YEAR HAS BEEN COMPROMISED.

~~G.~~ H. For each taxable year beginning on or after January 1, the department shall adjust the dollar amounts prescribed by subsection A, paragraphs 1 and 2 of this section according to the average annual change in the metropolitan Phoenix consumer price index published by the United States bureau of labor statistics. The revised dollar amounts shall be raised to the nearest whole dollar. The designated dollar amounts shall not be revised below the amounts allowed by the standard deduction in the prior taxable year.

Sec. 18. Section 43-1071, Arizona Revised Statutes, is amended to read:

43-1071. Credit for income taxes paid to other states; definitions

A. Subject to the following conditions, residents shall be allowed a credit against the taxes imposed by this chapter for net income taxes imposed by and paid to another state or country on income taxable under this chapter:

1. The credit shall be allowed only for taxes paid to the other state or country on income that is derived from sources within that state or country and that is taxable under its laws irrespective of the residence or domicile of the recipient.

2. The credit shall not be allowed if the other state or country allows residents of this state a credit against the taxes imposed by that state or country for taxes paid or payable under this chapter.

3. The credit shall not exceed the proportion of the tax payable under this chapter as the income subject to tax in the other state or country and also taxable under this title bears to the taxpayer's entire income on which the tax is imposed by this chapter.

B. If any taxes paid to another state or country for which a taxpayer has been allowed a credit under this section are at any time credited or refunded to the taxpayer:

1. The taxpayer shall immediately report that fact to the department.

2. A tax equal to the credit allowed for the taxes credited or refunded by the other state or country is due and payable from the taxpayer on notice and demand from the department.

3. Interest shall be added to and collected as a part of the tax at the rate determined pursuant to section 42-1123 from the date the credit was allowed under this chapter to the date of the notice and demand.

4. If the tax and interest are not paid within ten days from the date of notice and demand, there shall be collected as a part of the tax interest on the unpaid amount of tax and interest at the rate of twelve

~~per cent~~ PERCENT a year from the date of the notice and demand until the amount is paid.

C. The credit against the taxes imposed by this chapter for net income taxes paid to another state or country shall not be allowed to any taxpayer or any class of taxpayers if the allowances of the credit will result in any invalid or illegal discrimination against another taxpayer or another class of taxpayers.

D. For taxable years beginning on or after January 1, 2002 and subject to the following conditions, a resident of this state, who is also considered to be a resident of another state under the laws of the other state, is allowed a credit against the taxes imposed by this title for net income taxes imposed by and paid to that state on income taxable under this title as follows:

1. The credit is allowed only if the other state taxes the income to the resident of this state and does not allow the taxpayer a credit against taxes imposed by that state on that income for taxes paid or payable on that income under this title.

2. The credit is allowed only for the proportion of the taxes paid to the other state as the income taxable under this title and also subject to tax in the other state bears to the entire income on which the taxes paid to the other state are imposed.

3. The credit may not exceed the proportion of the tax payable under this title as the income taxable under this title and also subject to tax in the other state bears to the entire income taxable under this title.

4. For the purpose of the credit allowed under this subsection, "income taxable under this title and also subject to tax in the other state" means income that would be sourced to the other state if the other state were imposing its income tax on the taxpayer as if the taxpayer was a nonresident of that other state.

~~E. For the purposes of this section, net income taxes imposed by another country include taxes that qualify for a credit under sections 901 and 903 of the internal revenue code and the regulations under those sections.~~

E. THE TAXPAYER MAY APPLY THE ALLOWABLE CREDIT ONLY AGAINST ARIZONA INCOME TAX FOR THE SAME TAXABLE YEAR IN WHICH THE INCOME IS SUBJECT TO TAX IN THE OTHER STATE.

F. AN INDIVIDUAL WHO PARTICIPATES IN A COMPOSITE INCOME TAX RETURN IN ANOTHER STATE MAY CLAIM A CREDIT FOR TAXES PAID TO THE OTHER STATE IF THE TAXPAYER MEETS ALL OF THE REQUIREMENTS OF THIS SECTION AND THE TAXES PAID TO THE OTHER STATE ARE IMPOSED ON AND PAID DIRECTLY BY THE INDIVIDUAL TAXPAYER AND NOT THE ENTITY. FOR THE PURPOSES OF THIS SUBSECTION, TAXES ARE CONSIDERED TO BE IMPOSED ON AND PAID DIRECTLY BY THE INDIVIDUAL UNDER ONE OR MORE OF THE FOLLOWING CIRCUMSTANCES:

1. THE INDIVIDUAL MAKES DIRECT PAYMENT TO THE OTHER STATE.

2. THE INDIVIDUAL MAKES DIRECT PAYMENT TO THE ENTITY FILING THE COMPOSITE INCOME TAX RETURN.

3. THE ENTITY CHARGES THE INDIVIDUAL'S LOAN ACCOUNT FOR THE AMOUNT OF THE TAX.

4. THE ENTITY REDUCES THE INDIVIDUAL'S CAPITAL ACCOUNT.

G. IF THE TAXPAYER CLAIMS THE CREDIT FOR TAXES PAID TO A FOREIGN COUNTRY, THE TAXPAYER SHALL USE THE CONVERSION RATE IN EFFECT ON THE DATE THE TAXPAYER PAID THE TAXES TO THE FOREIGN COUNTRY.

~~F.~~ H. For the purposes of this section:

1. "COMPOSITE INCOME TAX RETURN" MEANS A SINGLE INCOME TAX RETURN THAT IS FILED WITH ANOTHER STATE ON BEHALF OF A GROUP OF INDIVIDUALS WHO ARE PARTNERS OR SHAREHOLDERS OF THE PARTNERSHIP OR S CORPORATION THAT FILED THE RETURN ON THEIR BEHALF.

~~1.~~ 2. "Entire income on which the other state's or country's tax is imposed" means the other state's or country's income computed under the equivalent of section 43-1094 but does not include any exemption allowable under the equivalent of section 43-1023.

~~2.~~ 3. "Entire income on which the tax is imposed by this chapter" means Arizona adjusted gross income as defined and computed under section 43-1001 but does not include any exemption allowed under section 43-1023.

~~3.~~ 4. "Income subject to tax in the other state or country and also taxable under this title" means the portion of income that is included in entire income on which the tax is imposed by this chapter that is also included in the entire income on which the other state's or country's tax is imposed. The taxpayer shall increase or reduce the portion of income that is included in the entire income on which the tax is imposed by this chapter by any related additions under section 43-1021 and by any related subtractions under section 43-1022. The taxpayer shall increase or reduce the portion of income that is included in the entire income on which the other state's or country's tax is imposed by any related additions and subtractions under the other state's equivalent of sections 43-1021 and 43-1022, as applicable.

5. "NET INCOME TAX":

(a) MEANS:

(i) A TAX THAT GRANTS DEDUCTIONS OR EXEMPTIONS FROM GROSS INCOME.

(ii) ANY TAX IMPOSED BY ANOTHER COUNTRY THAT QUALIFIES FOR A CREDIT UNDER SECTIONS 901 AND 903 OF THE INTERNAL REVENUE CODE AND THE REGULATIONS UNDER THOSE SECTIONS, EVEN IF WITHHELD FROM INCOME.

(b) EXCEPT AS SPECIFICALLY INCLUDED IN SUBDIVISION (a) OF THIS PARAGRAPH, DOES NOT INCLUDE:

(i) A SYSTEM OF TAXATION THAT ASSESSES TAXES ON GROSS INCOME, GROSS RECEIPTS OR GROSS DIVIDENDS.

(ii) TAXES WITHHELD FROM INCOME.

~~4.~~ 6. "Tax payable under this chapter" means the income tax imposed by this state on the taxpayer's taxable income as defined under

section 43-1001 minus any tax credit amount claimed for the taxable year under this article but not including the credit amount allowed under this section.

Sec. 19. Section 43-1096, Arizona Revised Statutes, is amended to read:

43-1096. Credit for income taxes paid by nonresident; definitions

A. Subject to the following conditions, nonresidents shall be allowed a credit against taxes imposed by this title for net income taxes imposed by and paid to the state or country of residence on income taxable under this title:

1. The credit shall be allowed only if the state or country of residence either does not tax income of residents of this state derived from sources within that state or country or allows residents of this state a credit against taxes imposed by that state or country on the income for taxes paid or payable under this title.

2. The credit shall not be allowed for taxes paid to a state or country ~~which~~ THAT allows its residents a credit against the taxes imposed by that state or country for income taxes paid or payable under this title irrespective of whether its residents are allowed a credit against the taxes imposed by this title for income taxes paid to that state or country.

3. The credit shall be allowed only for the proportion of the taxes paid to the state or country of residence as the income taxable under this title and also subject to tax in the state or country of residence bears to the entire income on which the taxes paid to the state or country of residence are imposed.

4. The credit shall not exceed the proportion of the tax payable under this title as the income taxable under this title and also subject to tax in the state or country of residence bears to the entire income taxable under this title.

~~B. For the purposes of this section, net income taxes imposed by another country include taxes that qualify for a credit under sections 901 and 903 of the internal revenue code and the regulations under those sections.~~

B. THE TAXPAYER MAY APPLY THE ALLOWABLE CREDIT ONLY AGAINST ARIZONA INCOME TAX FOR THE SAME TAXABLE YEAR IN WHICH THE INCOME IS SUBJECT TO TAX IN THE OTHER STATE.

C. IF THE TAXPAYER CLAIMS THE CREDIT FOR TAXES PAID TO A FOREIGN COUNTRY, THE TAXPAYER SHALL USE THE CONVERSION RATE IN EFFECT ON THE DATE THE TAXPAYER PAID THE TAXES TO THE FOREIGN COUNTRY.

~~C.~~ D. For the purposes of this section:

1. "Entire income on which the taxes paid to the state or country of residence are imposed" means the other state's or country's adjusted gross income computed under the equivalent of section 43-1001, but does

not include any exemption allowable under the equivalent of section 43-1023.

2. "Entire income taxable under this title" means Arizona adjusted gross income computed under section 43-1094 but does not include any exemption allowed under section 43-1023.

3. "Income taxable under this title and also subject to tax in the state or country of residence" means the portion of income that is included in entire income taxable under this title that is also included in the entire income on which the taxes paid to the state or country of residence are imposed. The taxpayer shall increase or reduce the portion of income that is included in the entire income taxable under this title by any related additions under section 43-1021 and by any related subtractions under section 43-1022. The taxpayer shall increase or reduce the portion of income that is included in the entire income on which taxes paid to the state or country of residence are imposed by any related additions and subtractions under the other state's equivalent of sections 43-1021 and 43-1022, as applicable.

4. "NET INCOME TAX":

(a) MEANS:

(i) A TAX THAT GRANTS DEDUCTIONS OR EXEMPTIONS FROM GROSS INCOME.

(ii) ANY TAX IMPOSED BY ANOTHER COUNTRY THAT QUALIFIES FOR A CREDIT UNDER SECTIONS 901 AND 903 OF THE INTERNAL REVENUE CODE AND THE REGULATIONS UNDER THOSE SECTIONS, EVEN IF WITHHELD FROM INCOME.

(b) EXCEPT AS SPECIFICALLY INCLUDED IN SUBDIVISION (a) OF THIS PARAGRAPH, DOES NOT INCLUDE:

(i) A SYSTEM OF TAXATION THAT ASSESSES TAXES ON GROSS INCOME, GROSS RECEIPTS OR GROSS DIVIDENDS.

(ii) TAXES WITHHELD FROM INCOME.

~~4.~~ 5. "Tax payable under this title" means the income tax imposed by this state on the taxpayer's taxable income computed under section 43-1095 minus any tax credit amount claimed for the taxable year under article 5 of this chapter but not including the credit amount allowed under this section.

Sec. 20. Section 43-1121, Arizona Revised Statutes, is amended to read:

43-1121. Additions to Arizona gross income: corporations

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

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

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

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

~~4. The amount by which the adjusted basis of property described in this paragraph and computed pursuant to the internal revenue code exceeds the adjusted basis of such property computed pursuant to this title and the income tax act of 1954, as amended. This paragraph applies to all property that is held for the production of income and that is sold or otherwise disposed of during the taxable year, except depreciable property used in a trade or business.~~

~~5.~~ 4. The amount of any depreciation allowance allowed pursuant to section 167(a) of the internal revenue code to the extent not previously added.

~~6.~~ 5. With respect to property for which an expense deduction was taken pursuant to section 179 of the internal revenue code in a taxable year beginning before January 1, 2013, the amount in excess of twenty-five thousand dollars.

~~7.~~ 6. The amount of discharge of indebtedness income that is deferred and excluded from the computation of federal taxable income in the current taxable year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5).

~~8.~~ 7. The amount of any previously deferred original issue discount that was deducted in computing federal taxable income in the current year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was previously subtracted from Arizona gross income pursuant to section 43-1122, paragraph ~~8~~ 7.

~~9.~~ 8. The amount of dividend income received from corporations and allowed as a deduction pursuant to sections 243, 244 and 245 of the internal revenue code.

~~10.~~ 9. Taxes that are based on income paid to states, local governments or foreign governments and that were deducted in computing federal taxable income.

~~11.~~ 10. Expenses and interest relating to tax-exempt income on indebtedness incurred or continued to purchase or carry obligations the interest on which is wholly exempt from the tax imposed by this title. Financial institutions, as defined in section 6-101, shall be governed by section 43-961, paragraph 2.

~~12.~~ 11. Commissions, rentals and other amounts paid or accrued to a domestic international sales corporation controlled by the payor

corporation if the domestic international sales corporation is not required to report its taxable income to this state because its income is not derived from or attributable to sources within this state. If the domestic international sales corporation is subject to article 4 of this chapter, the department shall prescribe by rule the method of determining the portion of the commissions, rentals and other amounts that are paid or accrued to the controlled domestic international sales corporation and that shall be deducted by the payor. For the purposes of this paragraph, "control" means direct or indirect ownership or control of fifty ~~per cent~~ PERCENT or more of the voting stock of the domestic international sales corporation by the payor corporation.

~~13.~~ 12. The amount of net operating loss taken pursuant to section 172 of the internal revenue code.

~~14.~~ 13. The amount of exploration expenses determined pursuant to section 617 of the internal revenue code to the extent that they exceed seventy-five thousand dollars and to the extent that the election is made to defer those expenses not in excess of seventy-five thousand dollars.

~~15.~~ 14. Amortization of costs incurred to install pollution control devices and deducted pursuant to the internal revenue code or the amount of deduction for depreciation taken pursuant to the internal revenue code on pollution control devices for which an election is made pursuant to section 43-1129.

~~16.~~ 15. The amount of depreciation or amortization of costs of child care facilities deducted pursuant to section 167 or 188 of the internal revenue code for which an election is made to amortize pursuant to section 43-1130.

~~17.~~ 16. The loss of an insurance company that is exempt under section 43-1201 to the extent that it is included in computing Arizona gross income on a consolidated return pursuant to section 43-947.

~~18.~~ 17. The amount by which the depreciation or amortization computed under the internal revenue code with respect to property for which a credit was taken under section 43-1169 exceeds the amount of depreciation or amortization computed pursuant to the internal revenue code on the Arizona adjusted basis of the property.

~~19.~~ 18. The amount by which the adjusted basis computed under the internal revenue code with respect to property for which a credit was claimed under section 43-1169 and that is sold or otherwise disposed of during the taxable year exceeds the adjusted basis of the property computed under section 43-1169.

~~20.~~ 19. The amount by which the depreciation or amortization computed under the internal revenue code with respect to property for which a credit was taken under either section 43-1170 or 43-1170.01 exceeds the amount of depreciation or amortization computed pursuant to the internal revenue code on the Arizona adjusted basis of the property.

~~21.~~ 20. The amount by which the adjusted basis computed under the internal revenue code with respect to property for which a credit was claimed under either section 43-1170 or 43-1170.01 and that is sold or otherwise disposed of during the taxable year exceeds the adjusted basis of the property computed under section 43-1170 or 43-1170.01, as applicable.

~~22.~~ 21. The deduction referred to in section 1341(a)(4) of the internal revenue code for restoration of a substantial amount held under a claim of right.

~~23.~~ 22. The amount by which a capital loss carryover allowable pursuant to section 1341(b)(5) of the internal revenue code exceeds the capital loss carryover allowable pursuant to section 43-1130.01, subsection F.

~~24.~~ 23. Any amount deducted in computing Arizona taxable income as expenses for installing solar stub outs or electric vehicle recharge outlets in this state with respect to which a credit is claimed pursuant to section 43-1176.

~~25.~~ 24. Any wage expenses deducted pursuant to the internal revenue code for which a credit is claimed under section 43-1175 and representing net increases in qualified employment positions for employment of temporary assistance for needy families recipients.

~~26.~~ 25. Any amount of expenses that were deducted pursuant to the internal revenue code and for which a credit is claimed under section 43-1178.

~~27.~~ 26. The amount of any deduction that is claimed in computing Arizona gross income and that represents a donation of a school site for which a credit is claimed under section 43-1181.

~~28.~~ 27. Any amount deducted pursuant to section 170 of the internal revenue code representing contributions to a school tuition organization for which a credit is claimed under section 43-1183 or 43-1184.

Sec. 21. Section 43-1122, Arizona Revised Statutes, is amended to read:

43-1122. Subtractions from Arizona gross income; corporations

In computing Arizona taxable income for a corporation, the following amounts shall be subtracted from Arizona gross income:

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

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

~~3. The amount by which the adjusted basis of property described in this paragraph and computed pursuant to this title and the income tax act of 1954, as amended, exceeds the adjusted basis of such property computed pursuant to the internal revenue code. This paragraph applies to all~~

~~property that is held for the production of income and that is sold or otherwise disposed of during the taxable year other than depreciable property used in a trade or business.~~

~~4.~~ 3. The amount allowed by section 43-1025 for contributions during the taxable year of agricultural crops to charitable organizations.

~~5.~~ 4. The portion of any wages or salaries paid or incurred by the taxpayer for the taxable year that is equal to the amount of the federal work opportunity credit, the empowerment zone employment credit, the credit for employer paid social security taxes on employee cash tips and the Indian employment credit that the taxpayer received under sections 45A, 45B, 51(a) and 1396 of the internal revenue code.

~~6.~~ 5. With respect to property that is sold or otherwise disposed of during the taxable year by a taxpayer that complied with section 43-1121, paragraph ~~5~~ 4 with respect to that property, the amount of depreciation that has been allowed pursuant to section 167(a) of the internal revenue code to the extent that the amount has not already reduced Arizona taxable income in the current taxable year or prior taxable years.

~~7.~~ 6. With respect to property for which an adjustment was made under section 43-1121, paragraph ~~6~~ 5, an amount equal to one-fifth of the amount of the adjustment pursuant to section 43-1121, paragraph ~~6~~ 5 in the year in which the amount was adjusted under section 43-1121, paragraph ~~6~~ 5 and in each of the following four years.

~~8.~~ 7. The amount of any original issue discount that was deferred and not allowed to be deducted in computing federal taxable income in the current taxable year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5).

~~9.~~ 8. The amount of previously deferred discharge of indebtedness income that is included in the computation of federal taxable income in the current taxable year pursuant to section 108(i) of the internal revenue code as added by section 1231 of the American recovery and reinvestment act of 2009 (P.L. 111-5), to the extent that the amount was previously added to Arizona gross income pursuant to section 43-1121, paragraph ~~7~~ 6.

~~10.~~ 9. With respect to a financial institution as defined in section 6-101, expenses and interest relating to tax-exempt income disallowed pursuant to section 265 of the internal revenue code.

~~11.~~ 10. Dividends received from another corporation owned or controlled directly or indirectly by a recipient corporation. For the purposes of this paragraph, "control" means direct or indirect ownership or control of fifty percent or more of the voting stock of the payor corporation by the recipient corporation. Dividends shall have the meaning provided in section 316 of the internal revenue code. This

subtraction shall apply without regard to section 43-961, paragraph 2 and article 4 of this chapter.

~~12.~~ 11. Interest income received on obligations of the United States.

~~13.~~ 12. The amount of dividend income from foreign corporations.

~~14.~~ 13. The amount of net operating loss allowed by section 43-1123.

~~15.~~ 14. The amount of any state income tax refunds received that were included as income in computing federal taxable income.

~~16.~~ 15. The amount of expense recapture included in income pursuant to section 617 of the internal revenue code for mine exploration expenses.

~~17.~~ 16. The amount of deferred exploration expenses allowed by section 43-1127.

~~18.~~ 17. The amount of exploration expenses related to the exploration of oil, gas or geothermal resources, computed in the same manner and on the same basis as a deduction for mine exploration pursuant to section 617 of the internal revenue code. This computation is subject to the adjustments contained in section 43-1121, paragraph ~~14~~ 13 and paragraphs ~~16~~ 15 and ~~17~~ 16 of this section relating to exploration expenses.

~~19.~~ 18. The amortization of pollution control devices allowed by section 43-1129.

~~20.~~ 19. The amount of amortization of the cost of child care facilities pursuant to section 43-1130.

~~21.~~ 20. The amount of income from a domestic international sales corporation required to be included in the income of its shareholders pursuant to section 995 of the internal revenue code.

~~22.~~ 21. The income of an insurance company that is exempt under section 43-1201 to the extent that it is included in computing Arizona gross income on a consolidated return pursuant to section 43-947.

~~23.~~ 22. The amount by which a capital loss carryover allowable pursuant to section 43-1130.01, subsection F exceeds the capital loss carryover allowable pursuant to section 1341(b)(5) of the internal revenue code.

~~24.~~ 23. An amount equal to the depreciation allowable pursuant to section 167(a) of the internal revenue code for the taxable year computed as if the election described in section 168(k)(2)(D)(iii) of the internal revenue code had been made for each applicable class of property in the year the property was placed in service.

Sec. 22. Section 43-1123, Arizona Revised Statutes, is amended to read:

43-1123. Net operating loss; definition

A. For the purposes of this section, "net operating loss" means:

1. In the case of a taxpayer who has a net operating loss for the taxable year within the meaning of section 172(c) of the internal revenue code, the amount of the net operating loss increased by the subtractions specified in section 43-1122, except the subtraction allowed in section 43-1122, paragraph ~~14~~ 13, and reduced by the additions specified in section 43-1121.

2. In the case of a taxpayer not described in paragraph 1 of this subsection, any excess of the subtractions specified in section 43-1122, except the subtraction allowed in section 43-1122, paragraph ~~14~~ 13, over the sum of the Arizona gross income plus the additions specified in section 43-1121.

B. If for any taxable year the taxpayer has a net operating loss:

1. Such net operating loss shall be a net operating loss carryover for:

(a) Each of the five succeeding taxable years for net operating losses arising in taxable periods through December 31, 2011.

(b) Each of the twenty succeeding taxable years for net operating losses arising in taxable periods beginning from and after December 31, 2011.

2. The carryover in the case of each such succeeding taxable year, other than the first succeeding taxable year, shall be the excess, if any, of the amount of such net operating loss over the sum of the taxable income for each of the intervening years computed by determining the net operating loss subtraction for each intervening taxable year, without regard to such net operating loss or to the net operating loss for any succeeding taxable year.

C. The amount of the net operating loss subtraction shall be the aggregate of the net operating loss carryovers to the taxable year.

Sec. 23. Section 43-1127, Arizona Revised Statutes, is amended to read:

43-1127. Deferred exploration expenses

~~A.~~ The amount of exploration expenses added to Arizona gross income pursuant to section 43-1121, paragraph ~~14~~ 13 may be subtracted on a ratable basis as the units of produced ores or minerals discovered or explored by reason of such expenditures are sold. An election made for any taxable year shall be binding for ~~such~~ THAT year.

~~B. If such property is sold, it shall be treated in the same manner and on the same basis as property held for the production of income pursuant to section 43-1121, paragraph 4 or section 43-1122, paragraph 3.~~

Sec. 24. Section 43-1130.01, Arizona Revised Statutes, is amended to read:

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

A. This section applies if:

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

2. A deduction would be allowable under the internal revenue code or this title for the taxable year, without application of section 1341(b)(3) of the internal revenue code or section 43-1121, paragraph ~~22~~ 21, because after the close of the prior taxable year or years it was established that the taxpayer did not have an unrestricted right to all or part of the item.

3. The amount of the deduction exceeds three thousand dollars.

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

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

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

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

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

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

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

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

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

(b) No carryover beyond the taxable year may be taken into account.

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

(a) The loss shall be:

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

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

(b) No carryover beyond the taxable year may be taken into account.

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

Sec. 25. Section 43-1502, Arizona Revised Statutes, is amended to read:

43-1502. Certification as a school tuition organization

A. A nonprofit organization in this state that is exempt or has applied for exemption from federal taxation under section 501(c)(3) of the internal revenue code may apply to the department of revenue for certification as a school tuition organization, and the department shall certify the school tuition organization if it meets the requirements prescribed by this chapter. An organization must apply for certification on a form prescribed and furnished on request by the department.

B. The department shall:

1. Maintain a public registry of currently certified school tuition organizations.

2. Make the registry available to the public on request.

3. Post the registry on the department's official website.

C. The department shall send written notice by certified mail to a school tuition organization if the department determines that the school tuition organization has engaged in any of the following activities:

1. ~~Failing~~ FAILED or ~~refusing~~ REFUSED to allocate at least ninety ~~per cent~~ PERCENT of annual revenues from contributions made for the purposes of sections 20-224.06, 20-224.07, 43-1183 and 43-1184 for educational scholarships or tuition grants.

2. ~~Failing~~ FAILED or ~~refusing~~ REFUSED to file the annual reports required by section 43-1506.

3. ~~Limiting~~ LIMITED THE availability of scholarships to students of only one school.

4. ~~Encouraging, facilitating~~ ENCOURAGED, FACILITATED or knowingly ~~permitting~~ PERMITTED taxpayers to engage in actions prohibited by this article.

5. Knowingly ~~colluding~~ COLLUDED with any other school tuition organization to circumvent the limits of section 43-1504, subsection C.

6. FAILED OR REFUSED TO MEET ANY OF THE REQUIREMENTS IN SECTION 43-1503, SUBSECTION B.

7. FAILED OR REFUSED TO COMPLY WITH THE AUDIT OR FINANCIAL REVIEW REQUIREMENTS OF SECTION 43-1507.

D. A school tuition organization that receives notice from the department pursuant to subsection C of this section has ninety days to correct the violation identified by the department in the notice. If a school tuition organization fails or refuses to comply after ninety days, the department may remove the organization from the list of certified school tuition organizations and shall make available to the public notice of removal as soon as possible. An organization that is removed from the list of certified school tuition organizations must notify any taxpayer who attempts to make a contribution that the contribution is not eligible for the tax credit and offer to refund all donations received after the date of the notice of termination of certification.

E. A school tuition organization may request an administrative hearing on the revocation of its certification as provided by title 41, chapter 6, article 10. Except as provided in section 41-1092.08, subsection H, a decision of the department is subject to judicial review pursuant to title 12, chapter 7, article 6.

Sec. 26. Section 43-1602, Arizona Revised Statutes, is amended to read:

43-1602. Certification as a school tuition organization

A. A nonprofit organization in this state that is exempt or has applied for exemption from federal taxation under section 501(c)(3) of the internal revenue code may apply to the department of revenue for certification as a school tuition organization, and the department shall certify the school tuition organization if it meets the requirements prescribed by this chapter. An organization must apply for certification on a form prescribed and furnished on request by the department.

B. The department shall:

1. Maintain a public registry of currently certified school tuition organizations.

2. Make the registry available to the public on request.

3. Post the registry on the department's official website.

C. The department shall send written notice by certified mail to a school tuition organization if the department determines that the school tuition organization has engaged in any of the following activities:

1. ~~Failing~~ FAILED or ~~refusing~~ REFUSED to allocate at least ninety ~~per cent~~ PERCENT of annual revenues from contributions made for the purposes of sections 43-1089 and 43-1089.03 for educational scholarships or tuition grants.

2. ~~Failing~~ FAILED or ~~refusing~~ REFUSED to file the annual reports required by section 43-1604.

3. ~~Limiting~~ LIMITED THE availability of scholarships to students of only one school.

4. ~~Encouraging, facilitating~~ ENCOURAGED, FACILITATED or knowingly ~~permitting~~ PERMITTED taxpayers to engage in actions prohibited by this article.

5. ~~Awarding, restricting~~ AWARDED, RESTRICTED or ~~reserving~~ RESERVED educational scholarships or tuition grants for use by a particular student based solely on the recommendation of the donor.

6. FAILED OR REFUSED TO MEET ANY OF THE REQUIREMENTS IN SECTION 43-1603, SUBSECTION B.

7. FAILED OR REFUSED TO INCLUDE THE NOTICE REQUIRED IN SECTION 43-1603, SUBSECTION C.

8. FAILED OR REFUSED TO COMPLY WITH THE AUDIT OR FINANCIAL REVIEW REQUIREMENTS OF SECTION 43-1605.

D. A school tuition organization that receives notice from the department pursuant to subsection C of this section has ninety days to correct the violation identified by the department in the notice. If a school tuition organization fails or refuses to comply after ninety days, the department may remove the organization from the list of certified school tuition organizations and shall make available to the public notice of removal as soon as possible. An organization that is removed from the list of certified school tuition organizations must notify any taxpayer who attempts to make a contribution that the contribution is not eligible for the tax credit and offer to refund all donations received after the date of the notice of termination of certification.

E. A school tuition organization may request an administrative hearing on the revocation of its certification as provided by title 41, chapter 6, article 10. Except as provided in section 41-1092.08, subsection H, a decision of the department is subject to judicial review pursuant to title 12, chapter 7, article 6.

Sec. 27. Laws 2014, chapter 168, section 12 is amended to read:

Sec. 12. Effective date; applicability

Section 43-1074.01, Arizona Revised Statutes, as amended by Laws 2012, chapter 3, section 47 and ~~this act~~ LAWS 2014, CHAPTER 168, SECTION 6, and section 43-1168, Arizona Revised Statutes, as amended by Laws 2012, chapter 3, section 54 and ~~this act~~ LAWS 2014, CHAPTER 168, SECTION 10, are effective AND APPLY TO TAXABLE YEARS BEGINNING from and after December 31, 2017.

Sec. 28. Conditional enactment

Section 42-5159, Arizona Revised Statutes, as amended by this act, does not become effective unless Senate Bill 1010, fifty-third legislature, first regular session, relating to multiple, defective and conflicting legislative dispositions of statutory text, becomes law.

APPROVED BY THE GOVERNOR APRIL 21, 2017.

FILED IN THE OFFICE OF THE SECRETARY OF ~~STATE~~ APRIL 21, 2017.

Passed the House April 17, 2017,

by the following vote: 58 Ayes,

0 Nays, 1 Not Voting 1 Vacant

Speaker of the House

Chief Clerk of the House

Passed the Senate February 13, 2017,

by the following vote: 30 Ayes,

0 Nays, 0 Not Voting

President of the Senate

Pro Tempore

Secretary of the Senate

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR
This Bill was received by the Governor this

_____ day of _____, 20____,

at _____ o'clock _____ M.

Secretary to the Governor

Approved this _____ day of

_____, 20_____,

at _____ o'clock _____ M.

Governor of Arizona

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill was received by the Secretary of State

this _____ day of _____, 20____,

at _____ o'clock _____ M.

Secretary of State

S.B. 1291

SENATE CONCURS IN HOUSE AMENDMENTS AND FINAL PASSAGE

Passed the Senate April 18, 20 17

by the following vote: 28 Ayes,

0 Nays, 2 Not Voting

President of the Senate

Susan Reeves

Secretary of the Senate

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF GOVERNOR

This Bill received by the Governor this

18th day of April, 20 17

at 12:19 o'clock P. M.

Secretary to the Governor

Approved this 21st day of

April, 2017

at 9:32 o'clock A M.

Governor of Arizona

EXECUTIVE DEPARTMENT OF ARIZONA
OFFICE OF SECRETARY OF STATE

This Bill received by the Secretary of State

this 21 day of April, 20 17

S.B. 1291

at 2:46 o'clock P M.

Michele Reagan

Secretary of State