HOUSE BILL 2111

AN ACT

AMENDING SECTIONS 42-1004, 42-2003, 42-2059, 42-2075, 42-5009, 42-5010 AND 42-5014, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5015; AMENDING SECTIONS 42-5029, 42-5032.01 AND 42-5032.02, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5039; AMENDING SECTIONS 42-5061, 42-5071 AND 42-5075, ARIZONA REVISED STATUTES; REPEALING SECTION 42-5076, ARIZONA REVISED STATUTES; AMENDING SECTIONS 42-5159, 42-6001, 42-6002, 42-6004, 42-6005, 42-6105, 42-6106 AND 42-6107, ARIZONA REVISED STATUTES; RELATING TO TRANSACTION PRIVILEGE TAXES.

(TEXT OF BILL BEGINS ON NEXT PAGE)
prescribed by law for such purposes. In all proceedings prescribed by law the department may act on behalf of this state. In addition, the department shall:

1. Formulate policies, plans and programs to effectuate the missions and purposes of the department.
2. Employ and remove personnel subject to title 41, chapter 4, article 4 and, as applicable, articles 5 and 6, determine the conditions of employment and prescribe the duties and powers of administrative, professional, technical, secretarial, clerical and other personnel as may be necessary in the performance of its duties, and contract for the services of outside advisors, consultants and aides as may be reasonably necessary.
3. Make contracts and incur obligations within the general scope of its activities and operations subject to the availability of its funds.
4. Contract with or assist other departments, agencies or institutions of the state, local, Indian tribal and federal governments in the furtherance of its purposes, objectives and programs.
5. Accept grants, matching funds and direct payments from public or private agencies for the conduct of programs which are consistent with the overall purposes and objectives of the department.
6. Provide information and advice within the scope of its duties subject to the laws on confidentiality of information and departmental rules adopted pursuant to such laws.
7. Advise with and make recommendations to the governor and the legislature on all matters concerning its objectives.
8. Have an official seal which shall be judicially noticed.
9. Provide an integrated, coordinated and uniform system of tax administration and revenue collection for the state, INCLUDING A COORDINATED ELECTRONIC METHOD OF COLLECTING STATE AND MUNICIPAL TRANSACTION PRIVILEGE AND AFFILIATED EXCISE TAXES.

B. The department may:

1. With the approval of the attorney general:
   (a) Abate any balance owed by a taxpayer if the balance is uncollectible. Related liens, if any, are extinguished on abatement.
   (b) Abate all or part of the unpaid portion of any tax if the director determines that the administration and collection costs involved would exceed the amount of the tax.
2. Offer publications relating to the administration of state taxes for sale at a price equal to the pro rata cost of publication and distribution. Monies received from the sale of publications shall be placed in a revenue publications revolving fund. Monies in the fund:
   (a) Shall not be used to meet publication and distribution expenses.
   (b) Are exempt from the provisions of section 35-190 relating to laping of appropriations.
3. Enter into contingent fee contracts to collect delinquent state taxes, penalties, interest and other amounts owed to the department under title 43 and chapter 5, article 1 of this title, consistent with the requirements of chapter 2, article 1 of this title. No contract may be entered into for the hiring of auditors on a contingent fee basis except auditors that are hired to enforce title 44, chapter 3.
4. In the determination of any issue of law or fact under this title or title 43, neither the department, nor any officer or agency having any administrative duties under this title or title 43, nor any court is bound by the determination of any other executive officer or administrative agency of this state. In the determination of any case arising under this title or title 43, the rule of res judicata is applicable only if the liability involved is for the same year or period as was involved in another case previously determined under this title or title 43.
5. The remedies of this state provided for in this title and title 43 are cumulative, and no action taken by the department constitutes an election by this state to pursue any remedy to the exclusion of any other remedy provided by law.
6. The attorney general shall prosecute in the name of this state all actions necessary to enforce this title and title 43. The attorney general may defend all actions brought against this state or an officer or agency of this state arising under this title and title 43. The attorney general may delegate the prosecuting authority to any county attorney for prosecution in that county.
7. A special collections account is established in the state general fund. All monies collected pursuant to contracts authorized by subsection B, paragraph 3 of this section shall be deposited in the special collections account. The department shall pay from the account all fees and court costs provided for in the contracts authorized under subsection B, paragraph 3 of this section. The department shall allocate the remainder of the amounts collected under subsection B, paragraph 3 of this section to the state or the political subdivision in the proportion that the monies would have been distributed pursuant to chapter 5 of this title or section 43-206, respectively.

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

42-2003. Authorized disclosure of confidential information

A. Confidential information relating to:

1. A taxpayer may be disclosed to the taxpayer, its successor in interest or a designee of the taxpayer who is authorized in writing by the taxpayer. A principal corporate officer of a parent corporation may execute a written authorization for a controlled subsidiary.
2. A corporate taxpayer may be disclosed to any principal officer, any person designated by a principal officer or any person designated in a resolution by the corporate board of directors or other similar governing body.
3. A partnership may be disclosed to any partner of the partnership. This exception does not include disclosure of confidential information of a particular partner unless otherwise authorized.
4. An estate may be disclosed to the personal representative of the estate and to any heir, next of kin or beneficiary under the will of the decedent if the department finds that the heir, next of kin or beneficiary has a material interest which will be affected by the confidential information.
5. A trust may be disclosed to the trustee or trustees, jointly or separately, and to the grantor or any beneficiary of the trust if the department finds that the grantor or beneficiary has a material interest that will be affected by the confidential information.
6. Any taxpayer may be disclosed if the taxpayer has waived any rights to confidentiality either in writing or on the record in any administrative or judicial proceeding.
7. The name and taxpayer identification numbers of persons issued direct payment permits may be publicly disclosed.

B. Confidential information may be disclosed to:

1. Any employee of the department whose official duties involve tax administration.
2. The office of the attorney general solely for its use in preparation for, or in an investigation that may result in, any proceeding involving tax administration before the department or any other agency or board of this state, or before any grand jury or any state or federal court.
3. The department of liquor licenses and control for its use in determining whether a spirituous liquor licensee has paid all transaction taxes and affiliated excise taxes incurred as a result of the sale of spirituous liquor, as defined in section 4-101, at the licensed establishment and imposed on the licensed establishments by this state and its political subdivisions.
4. Other state tax officials whose official duties require the disclosure for proper tax administration purposes if the information is sought in connection with an investigation or any other proceeding conducted by the official. Any disclosure is limited to information of a taxpayer who is being investigated or who is a party to a proceeding conducted by the official.
5. The following agencies, officials and organizations, if they grant substantially similar privileges to the department for the type of information being sought, pursuant to statute and a written agreement between the department and the foreign country, agency, state, Indian tribe or organization:

   a. The United States internal revenue service, alcohol and tobacco tax and trade bureau of the United States treasury, United States bureau of alcohol, tobacco, firearms and explosives of the United States department of justice, United States drug enforcement agency and federal bureau of investigation.
7. Any person to the extent necessary for effective tax administration in connection with:
   (a) The processing, storage, transmission, destruction and reproduction of the information.
   (b) The programming, maintenance, repair, testing and procurement of equipment for purposes of tax administration.
   (c) The collection of the taxpayer's civil liability.

8. The office of administrative hearings relating to taxes administered by the department pursuant to section 42-1101, but the department shall not disclose any confidential information:
   (a) Regarding income tax or withholding tax.
   (b) On any tax issue relating to information associated with the reporting of income tax or withholding tax.

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

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

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

12. The Arizona commerce authority for its use in:
   (a) Qualifying renewable energy operations for the tax incentives under sections 42-12006, 43-1083.01 and 43-1164.01.
   (b) Qualifying businesses with a qualified facility for income tax credits under sections 43-1083.03 and 43-1164.04.
   (c) Fulfilling its annual reporting responsibility pursuant to section 41-1511, subsections U and V and section 41-1512, subsections U and V.

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

14. The state fire marshal in determining compliance with and enforcing title 41, chapter 16, article 3.1.

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

16. The department shall not disclose any confidential information:
   (a) Qualifying renewable energy operations for the tax incentives under sections 42-12006, 43-1083.01 and 43-1164.01.
   (b) Qualifying businesses with a qualified facility for income tax credits under sections 43-1083.03 and 43-1164.04.
   (c) Fulfilling its annual reporting responsibility pursuant to section 41-1511, subsections U and V and section 41-1512, subsections U and V.

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

1. One or more of the following circumstances must apply:
   (a) The taxpayer is a party to the proceeding.
   (b) The proceeding arose out of, or in connection with, determining the taxpayer's civil or criminal liability, or the collection of the taxpayer's civil liability, with respect to any tax imposed under this title or title 43.
   (c) The treatment of an item reflected on the taxpayer's return is directly related to the resolution of an issue in the proceeding.
   (d) Return information directly relates to a transactional relationship between a person who is a party to the proceeding and the taxpayer and directly affects the resolution of an issue in the proceeding.

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

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

D. The department, on the request of any person, shall provide the names and addresses of bingo licensees as defined in section 5-401, verify whether or not a person has a privilege license and number, a distributor's license and number or a withholding license number or disclose the information to be posted on the department's website or otherwise publicly accessible pursuant to section 42-1124, subsection F and section 42-3201, subsection A.

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

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

H. Confidential information relating to transaction privilege tax, use tax, severance tax, jet fuel excise and use tax and any other tax collected by the department on behalf of the county ANY JURISDICTION may be disclosed to any county, city or town official if the information relates to a taxpayer who is or may be taxable by the county, city or town OR WHO MAY BE SUBJECT TO AUDIT BY THE DEPARTMENT PURSUANT TO SECTION 42-6002. Any taxpayer information released by the department to the county, city or town:

1. May only be used for internal purposes, INCLUDING AUDITS.

2. May not be disclosed to the public in any manner that does not comply with confidentiality standards established by the department.

3. May only be used for purposes of identification and verification of the tax status of commercial property.

4. During the department's review of a transaction privilege tax, luxury tax, extending or continuing the review or delaying the disposition of a transaction privilege tax return for the purpose of extending or continuing the review of or delaying the disposition of a transaction privilege tax return for the purpose of extending or continuing the review of

5. May be disclosed to law enforcement agencies for law enforcement purposes.

6. May be disclosed to the public in any manner that does not comply with confidentiality standards established by the department.

7. In any manner that does not comply with confidentiality standards established by the department.

8. To the extent necessary for effective tax administration in connection with:
   (a) The processing, storage, transmission, destruction and reproduction of the information.
   (b) The programming, maintenance, repair, testing and procurement of equipment for purposes of tax administration.
   (c) The collection of the taxpayer's civil liability.

9. The office of administrative hearings relating to taxes administered by the department pursuant to section 42-1101, but the department shall not disclose any confidential information:
   (a) Regarding income tax or withholding tax.
   (b) On any tax issue relating to information associated with the reporting of income tax or withholding tax.

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

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

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

13. The Arizona commerce authority for its use in:
   (a) Qualifying renewable energy operations for the tax incentives under sections 42-12006, 43-1083.01 and 43-1164.01.
   (b) Qualifying businesses with a qualified facility for income tax credits under sections 43-1083.03 and 43-1164.04.
   (c) Fulfilling its annual reporting responsibility pursuant to section 41-1511, subsections U and V and section 41-1512, subsections U and V.

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

15. The state fire marshal in determining compliance with and enforcing title 41, chapter 16, article 3.1.

16. The department of transportation for its use in administering taxes and surcharges prescribed by title 28.

17. Any person...

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

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

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

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

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

T. The department shall release confidential information as requested by the attorney general for purposes of determining compliance with and enforcing section 44-7101, the master settlement agreement referred to therein and subsequent agreements to which the state is a party that amend or implement the master settlement agreement. Information disclosed under this subsection is limited to luxury tax information relating to tobacco manufacturers, distributors, wholesalers and retailers and information collected by the department pursuant to section 44-7101(2)(j).

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

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

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

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

V. The department may disclose to the attorney general confidential information received under section 44-7111 and requested by the attorney general for purposes of determining compliance with and enforcing section 44-7111. The department and attorney general shall share with each other the information received under section 44-7111, and may share the information with other federal, state or local agencies only for the purposes of enforcement of section 36-798.06, 44-7101- OR 44-7111 or corresponding laws of other states.

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

X. The department may disclose to the attorney general confidential information requested by the attorney general for the purposes of determining compliance with and enforcing section 36-798.06.

Y. The department may disclose to an official of any city, town or county in a current agreement or considering a prospective agreement with the department as described in section 42-5032.02, subsection F any information relating to amounts subject to distributions by section 42-5032.02. Information disclosed by the department under this subsection:

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

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

Sec. 3. Section 42-2059, Arizona Revised Statutes, is amended to read:

42-2059. No additional audits or proposed assessments; exceptions
A. When the department completes an audit or the findings of a managed audit are accepted by the director or approved on appeal and a deficiency has been completely determined under section 42-1108 or chapter 1, article 6 of this title, the taxpayer's liability for the particular tax for the period subjected to the audit is fixed and determined, and no additional audit may be conducted except under the following circumstances:

1. If a taxpayer files a claim for refund under section 42-1251, subsection B or any other provision authorizing a claim for refund. Any departmental audit of the claim is limited to the issues presented on the claim for refund.

2. Changes or corrections required to be reported to the department by section 43-327. The department may audit any such reports or any periods for which a report was required notwithstanding this section and may determine a tax deficiency or a refund.

3. An audit of a taxpayer's return or claim for refund shall not exceed two years from the date of initial audit contact to the issuance of a notice of proposed deficiency assessment or proposed overpayment, except:
   1. An audit of fraudulent tax return.
   2. An audit delayed as the result of the taxpayer's bankruptcy proceeding.
   3. An audit in which the department has issued a letter to the taxpayer or the taxpayer's representative citing the potential imposition of the penalty described in section 42-1125, subsection C for the taxpayer's failure or refusal to provide information pursuant to the department's written request.

4. An audit involving proceedings concerning the enforcement or validity of a subpoena or subpoena duces tecum issued
pursuant to section 42-1006, subsection C.

5. An audit involving a proceeding under section 42-2056.

6. An audit where a taxpayer has filed a petition pursuant to section 43-1148, but only in relation to the effect of the petition request.

7. An audit in which the taxpayer provides a written request to extend the audit beyond the two-year period. A request for extension under this paragraph is not a substitute for a waiver of the statute of limitations pursuant to section 42-1104, subsection B, paragraph 9. However, a waiver of the statute of limitations is considered to be a written request to extend the audit beyond the two-year period under this paragraph.

B. This section applies to audits conducted by the department and to joint audits conducted by the department and cities and towns pursuant to section 42-6005 42-6002.

C. For the purposes of this section, "initial audit contact" means:

1. For a field audit, the date of the first meeting between the taxpayer or the taxpayer's representative and a member of the department's audit staff.

2. For a desk or office audit, the date of the first letter to the taxpayer regarding the audit.

See 5. Section 42-5009, Arizona Revised Statutes, is amended to read:

42-5009. Certificates establishing deductions: liability for making false certificate

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

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

2. Obtaining a certificate executed by the purchaser indicating the name and address of the purchaser, the precise nature of the business of the purchaser, the purpose for which the purchase was made, the necessary facts to establish the appropriate deduction and the tax license number of the purchaser to the extent the deduction depends on the purchaser conducting business classified under article 2 of this chapter and a certification that the person executing the certificate is authorized to do so on behalf of the purchaser. The certificate may be disregarded if the seller has reason to believe that the information contained in the certificate is not accurate or complete.

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

C. The department may prescribe a form for the certificate described in subsection A of this section. Under such rules as it may prescribe, the department may also prescribe transactions with respect to which a person is not entitled to rely solely on the information contained in the certificate or other information prescribed by the rules of this paragraph to the deduction.

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

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

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

G. If a seller claims a deduction under section 42-5061, subsection A, paragraph 25 and establishes entitlement to the deduction with an exemption letter that the purchaser received from the department and the exemption letter was based on a contingent event, the department may require the purchaser that received the exemption letter to establish the satisfaction of the contingent event within a reasonable time. If the purchaser cannot establish the satisfaction of the event, the department shall require the purchaser to furnish in an amount equal to any tax, penalty and interest that the seller would have been required to pay under this article if the seller had not furnished the exemption letter. Payment of the amount under this subsection exempts the purchaser from liability for any tax imposed under article 4 of this chapter. The amount shall be treated as tax revenues collected from the seller in order to designate the distribution base for purposes of section 42-5029.

H. The department shall prescribe forms for certificates used to establish the satisfaction of the criteria necessary to qualify the sale of a motor vehicle for the deductions described in section 42-5061, subsection A, paragraph 14, paragraph 28, subdivision (a) and paragraph 42-44 and subsection U. To establish entitlement to these deductions, a motor vehicle dealer shall retain:

1. A copy of the nonresident registration permit authorized by section 28-2154.

2. A copy of the nonresident registration permit authorized by section 28-2154.

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

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

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

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for purposes of section 42-5029.

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

K. The department shall prescribe a form for a certificate to be used by a contractor that is not otherwise subject to tax under section 42-5075 when purchasing tangible personal property to be incorporated or fabricated by the person into any real property, structure, project, development or improvement. The contractor shall obtain a new certificate for each project and is subject to the following conditions:

1. The contractor is not working for the owner of the real property but is working on a job that is in the control of a prime contractor and that the prime contractor is liable for the tax on the gross income, gross proceeds of sales or gross receipts attributable to the job and from which the contractor is paid.

2. The contractor may use the certificate issued pursuant to this subsection only with respect to materials that will be incorporated into a project the gross receipts of which are subject to tax under section 42-5075.

3. The department shall issue the certificate to the contractor on receiving sufficient documentation to establish that the contractor meets the requirements of this subsection.

4. The department shall not issue a certificate to a contractor that has a delinquent tax balance owing the department under this title or title 43.

5. If the department determines that the contractor has failed to meet any of the requirements of this subsection, any deductions from taxation from the use of the certificate are subject to recapture and payment by the contractor.

Sec. 6. Section 42-5010, Arizona Revised Statutes, is amended to read:

42-5010. Rates; distribution base
A. The tax imposed by this article is levied and shall be collected at the following rates:

1. Five per cent of the tax base as computed for the business of every person engaging or continuing in this state in the following business classifications described in section 2 of this chapter:
   (a) Transporting classification.
   (b) Utilities classification.
   (c) Telecommunications classification.
   (d) Pipeline classification.
   (e) Private car line classification.
   (f) Publication classification.
   (g) Job printing classification.
   (h) Prime contracting classification.
   (i) Owner builder sales classification.
   (j) Amusement classification.
   (k) Restaurant classification.
   (l) Personal property rental classification.
   (m) Retail classification.

2. Five and one-half per cent of the tax base as computed for the business of every person engaging or continuing in this state in the transient lodging classification described in section 42-5070.

3. Three and one-eighth per cent of the tax base as computed for the business of every person engaging or continuing in this state in the mining classification described in section 42-5072.

4. Zero per cent of the tax base as computed for the business of every person engaging or continuing in this state in the commercial lease classification described in section 42-5069.

B. Except as provided by subsection J of this section, twenty per cent of the tax revenues collected at the rate prescribed by subsection A, paragraph 1 of this section from persons on account of engaging in business under the business classifications listed in subsection A, paragraph 1, subdivisions (a) through (j) of this section is designated as distribution base for purposes of section 42-5029.

C. Forty per cent of the tax revenues collected at the rate prescribed by subsection A, paragraph 1 of this section from persons on account of engaging in business under the business classifications listed in subsection A, paragraph 1, subdivisions (j), (i) through (m) of this section is designated as distribution base for purposes of section 42-5029.

D. Thirty-two per cent of the tax revenues collected from persons on account of engaging in business under the business classification listed in subsection A, paragraph 3 of this section is designated as distribution base for purposes of section 42-5029.

E. Fifty-three and one-third per cent of the tax revenues collected from persons on account of engaging in business under the business classification listed in subsection A, paragraph 4 of this section is designated as distribution base for purposes of section 42-5029.

F. Fifty per cent of the tax revenues collected from persons on account of engaging in business under the business classification listed in subsection A, paragraph 2 of this section is designated as distribution base for purposes of section 42-5029.

G. In addition to the rates prescribed by subsection A of this section, if approved by the qualified electors voting at a statewide general election, an additional rate increment is imposed and shall be collected through June 30, 2021. The taxpayer shall pay taxes pursuant to this subsection at the same time in the same manner as under subsection A of this section. The department shall separate and account for the revenues collected with respect to the rates imposed pursuant to this subsection and the state treasurer shall distribute all of those revenues in the manner prescribed by section 42-5029, subsection E. The rates imposed pursuant to this subsection shall not be considered local revenues for purposes of article IX, section 21, Constitution of Arizona. The additional tax rate increment is levied at the rate of six-tenths of one per cent of the tax base of every person engaging or continuing in this state in a business classification listed in subsection A, paragraph 1 of this section.

H. Any increase in the rate of tax that is imposed by this chapter and that is enacted by the legislature or by a vote of the people does not apply with respect to contracts entered into by prime contractors or pursuant to written bids made by prime contractors on or before the effective date of the legislation or the date of the election enacting the increase. To qualify for the exemption under this section, the prime contractor must maintain sufficient documentation, in a manner and form prescribed by the department, to verify the date of the contract or written bid.

I. For taxpayers taxable under this chapter other than prime contractors taxable pursuant to section 42-5075:

1. Any increase in the rate of tax that is imposed by this article or article 2 of this chapter enacted by the legislature or by a vote of the people does not apply for a period of one hundred twenty days from the date of the tax rate increase to the gross proceeds of sales or gross income of the business of the taxpayer with respect to written contracts entered into before the effective date of the tax rate increase unless the taxpayer has entered into a contract that contains a provision that entitles the taxpayer to recover from the purchaser the amount of the additional tax levied.

2. The provisions of this subsection apply without regard to the accounting method used by the taxpayer to report the taxes imposed by this chapter.

3. The provisions of this subsection shall not be considered in determining the rate of tax imposed under chapter 6, article 3 of this title.
B. The department, for any taxpayer whose estimated annual liability for taxes imposed by this article is between five hundred dollars and one thousand two hundred fifty dollars, may authorize such taxpayer to pay such taxes on a quarterly basis. The department, for any taxpayer whose estimated annual liability for taxes imposed by this article is five hundred dollars or less, may authorize such taxpayer to pay such taxes on an annual basis.

C. The department may require a taxpayer whose business is of a transient character to file the return and remit the taxes imposed by this article on a daily, a weekly or a transaction by transaction basis, and those returns and payments are due and payable on the date fixed by the department without a grace period otherwise allowed by this section. For the purposes of this subsection, "business of a transient character" means sales activity by a taxpayer not regularly engaged in selling within the state conducted from vehicles, portable booths, kiosks, tents, mobile units, tow-away units, stalls, kiosks, food trucks, food carts or similar mobile activities for not more than thirty consecutive days.

D. In 2010, 2011 and 2012, if a business entity under which a taxpayer reports and pays income tax under title 43 has an annual total tax liability under this article, article 6 of this chapter and chapter 6, article 3 of this title for the first fifteen days of June of the current calendar year.

E. The taxpayer shall prepare a return showing the amount of the tax for which the taxpayer is liable for the preceding month, and shall mail or deliver the return to the department in the same manner and time as prescribed for the payment of taxes in subsection A of this section. If the taxpayer fails to file the return in the manner and time as prescribed for the payment of taxes in subsection A of this section, the amount of the tax required to be shown on the return is subject to the penalty imposed pursuant to section 42-1125, subsection A, without any reduction for taxes paid on or before the due date of the return. The return shall be verified by the oath of the taxpayer or an authorized agent or as prescribed by the department pursuant to section 42-1105, subsection B.

F. Any person who is taxable under this article and who makes cash and credit sales shall report such cash and credit sales separately and upon making application may obtain from the department an extension of time for payment of taxes due on the credit sales. The extension shall be granted by the department under such rules as the department prescribes. When the extension is granted, the taxpayer shall thereafter include in each monthly report all collections made on such credit sales during the month next preceding and shall pay the taxes due at the time of filing such report.

G. The returns required under this article shall be made upon forms prescribed by the department AND SHALL CAPTURE DATA WITH SUFFICIENT SPECIFICITY TO MEET THE NEEDS OF THE TAXING JURISDICTIONS. The department, for any return required by this article and may grant such reasonable additional time within which to make the return as it deems proper, but the time for filing the return shall not be extended beyond the first day of the third month next succeeding the regular due date of the return.

I. The department, with the approval of the attorney general, may abate small tax balances if the administration costs exceed the amount of tax due.

J. For the purposes of subsection D of this section, "taxpayer" means the business entity under which the business reports and pays state income taxes regardless of the number of offices at which the taxes imposed by this article, article 6 of this chapter or chapter 6, article 3 of this title are collected.

Sec. 7. Section 42-5014, Arizona Revised Statutes, is amended to read:

42-5014. Return and payment of tax; estimated tax; extensions; abatements
A. Except as provided in subsection B, C or D of this section, the taxes levied under this article, article 6 of this chapter or chapter 6, article 3 of this title are collected.

1. Are due and payable monthly in the form required by section 42-5018 for the amount of the tax, to the department, on or before the twenty-fifth day of the month next succeeding the month in which the tax accrues.

2. The payment shall be made as follows:
   (a) For taxpayers electing to file by mail, if not postmarked on or before the twenty-fifth day of that month or if not received by the department on or before the business day preceding the last business day of the month.
   (b) For taxpayers electing to file and pay electronically in any month, if not received by the department on or before the last business day of the month.
   (c) For all other taxpayers, if not received by the department on or before the business day preceding the last business day of the month.

3. Any person who is taxable under this article and who makes cash and credit sales shall report such cash and credit sales separately and upon making application may obtain from the department an extension of time for payment of taxes due on the credit sales. The extension shall be granted by the department under such rules as the department prescribes. When the extension is granted, the taxpayer shall thereafter include in each monthly report all collections made on such credit sales during the month next preceding and shall pay the taxes due at the time of filing such report.

G. The returns required under this article shall be made upon forms prescribed by the department AND SHALL CAPTURE DATA WITH SUFFICIENT SPECIFICITY TO MEET THE NEEDS OF THE TAXING JURISDICTIONS.

H. The department, for any return required by this article may grant such reasonable additional time within which to make the return as it deems proper, but the time for filing the return shall not be extended beyond the first day of the third month next succeeding the regular due date of the return.

I. The department, with the approval of the attorney general, may abate small tax balances if the administration costs exceed the amount of tax due.

J. For the purposes of subsection D of this section, "taxpayer" means the business entity under which the business reports and pays state income taxes regardless of the number of offices at which the taxes imposed by this article, article 6 of this chapter or chapter 6, article 3 of this title are collected.

Sec. 8. Title 42, chapter 5, article 1, Arizona Revised Statutes, is amended by adding section 42-5015, to read:

42-5015. Online portal
ON OR BEFORE JANUARY 1, 2015, THE ONLINE PORTAL PRESCRIBED BY SECTION 42-6001 SHALL BE MODIFIED SO THAT A TAXPAYER WHO IS REQUIRED TO PAY ANY TRANSACTION PRIVILEGE AND AFFILIATED EXCISE TAXES TO THIS STATE OR A COUNTY OR MUNICIPALITY MAY REPORT AND PAY THE REQUIRED TAX THROUGH THE ONLINE PORTAL. THE COSTS OF THE ONLINE PORTAL SHALL BE PAID BY THE CITIES AND TOWNS THAT DID NOT HAVE AN INTERGOVERNMENTAL CONTRACT OR AGREEMENT IN EFFECT ON OR BEFORE JANUARY 1, 2010, WITH THE DEPARTMENT FOR UNIFIED OR COORDINATED LICENSING, COLLECTION AND AUDITING PROGRAMS. THE EXPANDED ONLINE PORTAL SHALL:
1. INCLUDE A SINGLE POINT FOR LICENSING, FILE A SINGLE RETURN AND PAYING TRANSACTION PRIVILEGE AND AFFILIATED EXCISE TAXES FOR ALL STATE, COUNTY AND MUNICIPAL TAXING JURISDICTIONS.
2. CONSOLIDATE DATA IN A MANNER COMPATIBLE WITH THE DATA SYSTEMS OF THE DEPARTMENT OF REVENUE.
3. CAPTURE DATA WITH SUFFICIENT SPECIFICITY TO MEET THE NEEDS OF THE TAXING JURISDICTIONS.
4. ALLOW THE USE OF AN ADDITION OF THE CORRECT TAXING JURISDICTIONS AND TAX RATES BASED ON THE PLACE WHERE THE TRANSACTION IS SOURCED.

Sec. 9. Sections 42-5020, 42-5021 and 42-5022, Arizona Revised Statutes, are amended to read:

42-5020. Online portal
ON OR BEFORE JANUARY 1, 2015, THE ONLINE PORTAL PRESCRIBED BY SECTION 42-6001 SHALL BE MODIFIED SO THAT A TAXPAYER WHO IS REQUIRED TO PAY ANY TRANSACTION PRIVILEGE AND AFFILIATED EXCISE TAXES TO THIS STATE OR A COUNTY OR MUNICIPALITY MAY REPORT AND PAY THE REQUIRED TAX THROUGH THE ONLINE PORTAL. THE COSTS OF THE ONLINE PORTAL SHALL BE PAID BY THE CITIES AND TOWNS THAT DID NOT HAVE AN INTERGOVERNMENTAL CONTRACT OR AGREEMENT IN EFFECT ON OR BEFORE JANUARY 1, 2010, WITH THE DEPARTMENT FOR UNIFIED OR COORDINATED LICENSING, COLLECTION AND AUDITING PROGRAMS. THE EXPANDED ONLINE PORTAL SHALL:
1. INCLUDE A SINGLE POINT FOR LICENSING, FILE A SINGLE RETURN AND PAYING TRANSACTION PRIVILEGE AND AFFILIATED EXCISE TAXES FOR ALL STATE, COUNTY AND MUNICIPAL TAXING JURISDICTIONS.
2. CONSOLIDATE DATA IN A MANNER COMPATIBLE WITH THE DATA SYSTEMS OF THE DEPARTMENT OF REVENUE.
3. CAPTURE DATA WITH SUFFICIENT SPECIFICITY TO MEET THE NEEDS OF THE TAXING JURISDICTIONS.
4. ALLOW THE USE OF AN ADDITION OF THE CORRECT TAXING JURISDICTIONS AND TAX RATES BASED ON THE PLACE WHERE THE TRANSACTION IS SOURCED.
A. The department shall deposit, pursuant to sections 35-146 and 35-147, all revenues collected under this article and articles 4, 5 and 8 of this chapter pursuant to section 42-1116, separately accounting for:

1. Payments of estimated tax under section 42-5014, subsection D.
2. Revenues collected pursuant to section 42-5070.
3. Revenues collected under this article and article 5 of this chapter from and after June 30, 2000 from sources located on Indian reservations in this state.
4. Revenues collected pursuant to section 42-5010, subsection G and section 42-5155, subsection D.

B. The department shall credit all other payments to the transaction privilege and severance tax clearing account, separately accounting for the monies designated as distribution base under sections 42-5010, 42-5164, 42-5205 and 42-5353. Each month the department shall report to the state treasurer the amount of monies collected pursuant to this article and articles 4, 5 and 8 of this chapter.

C. On notification by the department, the state treasurer shall distribute the monies deposited in the transaction privilege and severance tax clearing account in the manner prescribed by this section and by sections 42-5164, 42-5205 and 42-5353, after deducting warrants on the monies pursuant to sections 41-1118 and 42-1254.

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

1. Pay twenty-five per cent to the various incorporated municipalities in this state in proportion to their population to be used by the municipalities for any municipal purpose.
2. Pay thirty-eight and eight-tenths per cent to the counties in this state by averaging the following proportions:
   a. The proportion that the assessed valuation of each county bears to the total state population.
   b. The proportion that the distribution base monies collected during the calendar month in each county under this article, section 42-5164, subsection B, section 42-5205, subsection B and section 42-5353 bear to the total distribution base monies collected under this article, section 42-5164, subsection B, section 42-5205, subsection B and section 42-5353 throughout the state for the calendar month.
3. Pay an additional two and four-tenths per cent to the counties in this state as follows:
   a. Average the following proportions:
      (i) The proportion that the assessed valuation used to determine secondary property taxes of each county, after deducting that part of the assessed valuation that is exempt from taxation at the beginning of the month for which the amount is to be paid, bears to the total assessed valuations used to determine secondary property taxes of all the counties after deducting that portion of the assessed valuations that is exempt from taxation at the beginning of the month for which the amount is to be paid. Property of a city or town that is not within the boundaries of the municipal corporate boundaries and from which water is or may be withdrawn or diverted and transported for use on property is considered to be taxable property in the county for purposes of determining assessed valuation in the county under this item.
   b. The proportion that the distribution base monies collected during the calendar month in each county under this article, section 42-5164, subsection B, section 42-5205, subsection B and section 42-5353 bear to the total distribution base monies collected under this article, section 42-5164, subsection B, section 42-5205, subsection B and section 42-5353 throughout the state for the calendar month.
   c. After any transfers of monies pursuant to paragraph 2 of this subsection, and the amount that would have been distributed under paragraph 2 of this subsection using the proportion computed under subdivision (a) of this paragraph and shall pay that difference to the county from the amount available for distribution under this paragraph. Any monies remaining after all payments under this subdivision shall be distributed among the counties according to the proportions computed under paragraph 2 of this subsection.

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

1. If there are outstanding state school facilities revenue bonds pursuant to title 15, chapter 16, article 7, each month one-twelfth of the amount that is necessary to pay the fiscal year's debt service on outstanding state school improvement revenue bonds for the current fiscal year shall be transferred each month to the school improvement revenue bond debt service fund established by section 15-2084. The total amount of bonds for which these monies may be allocated for the payment of debt service shall not exceed a principal amount of eight hundred million dollars exclusive of refunding bonds and other refinancing obligations.
2. After any transfer of monies pursuant to paragraph 1 of this subsection, twelve per cent of the remaining monies collected during the preceding month shall be transferred to the technology and research initiative fund established by section 15-1648 to be distributed among the universities for the purpose of investment in technology and research-based initiatives.

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

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

5. After transferring monies pursuant to paragraphs 1, 2 and 3 of this subsection, one-twelfth of the following amounts shall be transferred each month to the department of education for the increased cost of basic state aid under section 15-971 due to added school days and additional teacher salary increases enacted in 2000:
   e. In fiscal year 2005-2006 and each fiscal year thereafter, $86,280,500.
6. After transferring monies pursuant to paragraphs 1, 2 and 3 of this subsection, seven million eight hundred thousand dollars in unencumbered fiscal 2005 monies to be paid in monthly installments to the department of education to be used for school safety and security programs.
...
2. State that the monies received under this section will be used exclusively to pay for public infrastructure improvements that are necessary to support the activities of the manufacturing facility.

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

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

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

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

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

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

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

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

For the purposes of this section:

1. "Manufacturing facility" includes any public infrastructure improvement that is made for the benefit of the manufacturing facility or on the parcel or parcels of real property where the manufacturing facility is located.

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

3. "Manufacturing facility":
   (a) Means an establishment THAT IS engaged in the mechanical, physical or chemical transformation or fabrication of materials, substances or components into new products in this state, that is classified within sections 31 through 33 inclusive of the 2007 edition of the North American industry classification system as published by the national technical information service of the United States department of commerce and the establishment THAT agrees to either:
   (i) Make at least five hundred million dollars in capital investment if the manufacturing facility is located in a county that has a population of eight hundred thousand persons or more.
   (ii) Make at least fifty million dollars in capital investment if the manufacturing facility is located in a county that has a population of less than eight hundred thousand persons.

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

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

5. "Public infrastructure" means water facilities, wastewater facilities and roads that are necessary to support the activities of the manufacturing facility.

Sec. 12. Title 42, chapter 5, article 1, Arizona Revised Statutes, is amended by adding section 42-5039, to read:

42-5039. Sourcing of certain transactions involving tangible personal property: definitions

A. EXCEPT AS PROVIDED IN SECTION 42-5075, RETAIL SALES OF TANGIBLE PERSONAL PROPERTY SHALL BE SOURCED AS FOLLOWS:

1. TO THE SELLER’S BUSINESS LOCATION IF THE SELLER RECEIVES THE ORDER AT A BUSINESS LOCATION IN THIS STATE.

2. TO THE PURCHASER’S LOCATION IN THIS STATE IF THE SELLER RECEIVES THE ORDER AT A BUSINESS LOCATION OUTSIDE THIS STATE.

B. FOR THE PURPOSES OF THIS SECTION, AN ORDER IS RECEIVED WHEN ALL OF THE INFORMATION NECESSARY TO ACCEPT THE ORDER HAS BEEN RECEIVED BY OR ON BEHALF OF THE SELLER, REGARDLESS OF WHERE THE ORDER IS ACCEPTED OR APPROVED. THE PLACE OF BUSINESS OR RESIDENCE OF THE PURCHASER DOES NOT DETERMINE WHERE THE ORDER IS RECEIVED.

www.azleg.gov/FormatDocument.asp?nDoc=legtext51leg/1r/bills/html2111s.htm&Session_ID=110
C. THE GROSS RECEIPTS FROM LEASING OR RENTING TANGIBLE PERSONAL PROPERTY SHALL BE SOURCED AS
FOLLOWS:
1. TO THE LESSOR'S BUSINESS LOCATION IF THE LESSOR HAS A BUSINESS LOCATION IN THIS STATE.
2. TO THE LESSEE'S ADDRESS IF THE LESSOR DOES NOT HAVE A BUSINESS LOCATION IN THIS STATE. THE
GROSS RECEIPTS ARE TAXABLE WHEN THE PROPERTY IS SHIPPED, DELIVERED OR OTHERWISE BROUGHT INTO
THIS STATE FOR USE IN THIS STATE.
D. FOR THE PURPOSES OF THIS SECTION:
1. "LESSEE'S ADDRESS" MEANS THE RESIDENTIAL ADDRESS OF AN INDIVIDUAL LESSEE AND THE PRIMARY
BUSINESS ADDRESS OF ANY OTHER LESSEE.
2. "LESSOR'S BUSINESS LOCATION" MEANS THE BUSINESS ADDRESS THAT APPEARS ON THE LESSOR'S
TRANSACTION PRIVILEGE TAX LICENSE.

Sec. 13. Section 42-5061, Arizona Revised Statutes, is amended to read:
42-5061. Retail classification: definitions
A. The retail classification is comprised of the business of selling tangible personal property at retail. The tax base for the
retail classification is the gross proceeds of sales or gross income derived from the business. The tax imposed on the retail classification
does not apply to the gross proceeds of sales or gross income from:
1. Professional or personal service occupations or businesses that involve sales or transfers of tangible personal property only
as inconsequential elements.
2. Services rendered in addition to selling tangible personal property at retail.
3. Sales of warranty or service contracts. The storage, use or consumption of tangible personal property provided under the
conditions of such contracts is subject to tax under section 42-5156.
4. Sales of tangible personal property by 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.
5. Sales to persons engaged in business classified under the restaurant classification of articles used by human beings for food,
drink or condiment, whether simple, mixed or compounded.
6. Business activity that is properly included in any other business classification that is taxable under this article.
7. The sale of stocks and bonds.
8. Drugs and medical oxygen, including delivery hose, mask or tent, regulator and tank, on the prescription of a member of the
medical, dental or veterinary profession who is licensed in law to administer such substances.
9. Prosthetic appliances as defined in section 23-501 prescribed or recommended by a health professional who is licensed pursuant
to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.
10. Insulin, insulin syringes and glucose test strips.
11. Prescription eyeglasses or contact lenses.
12. Hearing aids as defined in section 36-1901.
13. Durable medical equipment which 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 and licensed pursuant to title 32,
chapter 7, 8, 13, 14, 15, 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.
14. 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.
15. Textbooks by any bookstore that are required by any state university or community college.
16. Food and drink to a person who THAT is engaged in A business that is classified under the restaurant classification and that
provides such food and drink without monetary charge to its employees for their own consumption on the premises during the employees'
hours of employment.
17. Articles of food, drink or condiment and accessory tangible personal property to a school district or charter school if such articles
and accessory tangible personal property are to be prepared and served to persons for consumption on the premises of a public
school within the district or on the premises of the charter school during school hours.
18. Lottery tickets or shares pursuant to title 5, chapter 5.1, article 1.
19. Motor vehicle fuel and utility fuel that are subject to a tax imposed under title 28, chapter 16, article 3, sales of use fuel to a
holder of a valid single trip use fuel tax permit issued under section 28-5739, sales of aviation fuel that are subject to the tax imposed
under section 28-5344 and sales of utility fuel that are subject to the tax imposed under article 8 of this chapter.
20. Tangible personal property sold to a person engaged in the business of leasing or renting such property under the personal
property rental classification if such property is to be leased or rented by such person.
21. Tangible personal property sold in interstate or foreign commerce if prohibited from being so taxed by the Constitution of the
United States or the constitution of this state.
22. Tangible personal property sold to a qualifying hospital as defined in section 42-5001.
23. A qualified 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.
24. A qualified 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, visually impaired and multihandicapped children from the time of
birth to age twenty-one.
25. A qualified community health center as defined in section 42-5001.
26. 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.
27. 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.
28. Magazines or other periodicals or other publications by this state to encourage tourist travel.
29. Tangible personal property sold to a person that is subject to tax under this article by reason of being engaged in business
classified under the prime contracting classification under section 42-5075 or to a subcontractor working under the control of a prime
dealer.
contractor that is subject to tax under article 1 of this chapter, if the property so sold is any of the following:

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

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

28. The sale of a motor vehicle to:

(a) A nonresident of this state if the purchaser’s state of residence does not allow a corresponding use tax exemption to the tax imposed by article 1 of this chapter and if the nonresident has secured a special ninety day nonresident registration permit for the vehicle as prescribed in sections 28-2154 and 28-2154,01.

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

29. Tangible personal property purchased in this state by 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 mentally or physically handicapped persons if the programs are exclusively for training, job placement, rehabilitation or testing.

30. Sales of tangible personal property by 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.

31. Sales of 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.

32. Sales of tangible personal property by 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 inure to the benefit of any private shareholder or individual.

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

34. Machinery, equipment, technology or related supplies that are only useful to assist a person who is physically disabled as defined in section 46-191, 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. Sales of tangible personal property that is shipped or delivered directly to a destination outside the United States for use in that foreign country.

36. Sales of natural gas or liquefied petroleum gas used to propel a motor vehicle.

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

38. Sales of 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 a part of a fully integrated system of chemicals, involved in 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.

39. Sales of coal, petroleum, coke, natural gas, virgin fuel oil and electricity sold to 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 environmental technology manufacturer, producer or processor is placed in service.

40. Sales of natural gas or liquefied petroleum gas used to propel a motor vehicle.

41. 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.

42. Sales of livestock and poultry feed, salts, vitamins and other additives for livestock or poultry consumption that are sold to 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 ruminants.

43. Livestock and poultry feed, salts, vitamins and other additives used as growth promotants and injectable medicines, not already exempt under paragraph 8 of this subsection, for livestock or 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 ruminants.

44. Sales of motor vehicles at auction to nonresidents of this state for use outside this state if the vehicles are shipped or delivered to the state, regardless of where title is to the motor vehicles passes or to the motor vehicles leaves the board point.

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

46. Sales of alternative fuel, as defined in section 1-215, to 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.

47. Sales of 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) Audio, video or digital media materials, beginning July 17, 1994.

48. Tangible personal property sold to 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 for foreign air transportation to transport persons, property or United States mail in interstate, interstate

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49. Sales of 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.

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

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

52. Sales of tangible personal property 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.


54. 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.

55. Sales of 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.

56. Sales of 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.

57. Sales of or other transfers of renewable energy credits or any other unit created to track energy derived from renewable energy sources. 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 utility 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.

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

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. Mining 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 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 which 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 holding a federal certificate of public convenience and necessity, a supplemental air carrier certificate under federal aviation regulations (14 Code of Federal Regulations part 121) or a foreign air carrier permit for air transportation for use as or in conjunction with or becoming a part of an aircraft to be used to transport persons, property or United States mail in intrastate, interstate or foreign commerce.

(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. Railroad 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 which THAT are used directly to transport persons or property for hire or pursuant to a governmentally adopted and controlled urban mass transportation program and which THAT are sold to bus companies holding a federal certificate of convenience and necessity or necessary 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.


13. Machinery and equipment consisting of 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 and equipment that have never been sold at retail except pursuant to leases or rentals which THAT do not last 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 sustaining 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 telecommunication service, data transmission service, or telemarketing service that operates pursuant to 47 Code of Federal Regulations part 25.
(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 a qualified business under section 41-1516 for harvesting or processing qualifying forest products removed from qualifying projects as defined in section 41-1516.
(ii) Over two-thirds of the transmissions, measured in megabytes, transmitted by or on behalf of those direct broadcast satellite television or data transmission services that operate pursuant to 47 Code of Federal Regulations part 25.

F. If a person is engaged in an occupation or business to which subsection A of this section applies, the person shall be subject to a tax of $0.01 on the gross proceeds of sales of tangible personal property and gross income from sales of services, and if not so kept the tax shall be imposed on the total of the person's gross proceeds of sales of tangible personal property and gross income from services.

G. If a person is engaged in the business of selling tangible personal property at both wholesale and retail, the tax under this section applies only to the gross proceeds of the sales made other than at wholesale if the person's books are kept so as to show separately the gross proceeds of sales of tangible personal property and the gross income from sales of services.

H. If a person engages in manufacturing, baling, crating, boxing, barreling, canning, bottling, sacking, preserving, processing or otherwise preparing for sale or commercial use any livestock, agricultural or horticultural product or any other product, article, substance or commodity, the tax under this section applies only to the gross proceeds of the sales made other than at wholesale if the person's books are kept so as to show separately the gross proceeds of sales of each class, and if the books are not so kept, the tax under this section applies to the gross proceeds of every sale so made.

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

1. Transporting classification.
2. Utilities classification.
3. Telecommunications classification.
4. Pipeline classification.
5. Private car line classification.
the amount of transaction privilege tax that is paid in this state is equal to the excise tax that is imposed by the purchaser's state of
residence on the nonexempt sale or use of the motor vehicle.

6. Publication classification.
7. Job printing classification.
10. Restaurant classification.

J. The gross proceeds of sales or gross income derived from the following shall be deducted from the tax base for the retail
classification:
1. Sales made directly to the United States government or its departments or agencies by a manufacturer, modifier, assembler or
repairer.
2. Sales made directly to a manufacturer, modifier, assembler or repairer if such sales are of any ingredient or component part
of products sold directly to the United States government or its departments or agencies by the manufacturer, modifier, assembler or
repairer.
3. 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.
4. Sales of overhead materials or other tangible personal property to a manufacturer, modifier, assembler or repairer if the
gross proceeds of sales or gross income derived from the property by the manufacturer, modifier, assembler or repairer will be exempt
under paragraph 3 of this subsection.
K. There shall be deducted from the tax base fifty per cent of the gross proceeds or gross income from any sale of tangible
personal property made directly to the United States government or its departments or agencies, which is not deducted under
subsection J of this section.

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

M. In computing the tax base, gross proceeds of sales or gross income does not include:
1. A manufacturer's cash rebate on the sales price of a motor vehicle if the buyer assigns the buyer's right in the rebate to the
retailer.
2. The waste tire disposal fee imposed pursuant to section 44-1302.
N. There shall be deducted from the tax base the amount received from sales of solar energy devices. The retailer shall register
with the department as a solar energy retailer. By registering, the retailer acknowledges that it will make its books and records relating
to sales of solar energy devices available to the department for examination.
O. In computing the tax base in the case of the sale or transfer of wireless telecommunications equipment as an inducement to a
customer to enter into or continue a contract for telecommunications services that are taxable under section 42-5064, gross proceeds of
sales or gross income does not include any sales commissions or other compensation received by the retailer as a result of the customer
entering into or continuing a contract for the telecommunications services.

P. For the purposes of this section, a sale of wireless telecommunications equipment to a person who holds the equipment for
sale or transfer to a customer as an inducement to enter into or continue a contract for telecommunications services that are taxable
under section 42-5064 is considered to be a sale for resale in the regular course of business.
Q. Retail sales of prepaid calling cards or prepaid authorization numbers for telecommunications services, including sales of
reauthorization of a prepaid card or authorization number, are subject to tax under this section.
R. For the purposes of this section, the diversion of gas from a pipeline by a person engaged in the business of:
1. Operating a natural or artificial gas pipeline, for the sole purpose of fueling compressor equipment to pressurize the pipeline,
is not a sale of the gas to the operator of the pipeline.
2. Converting natural gas into liquefied natural gas, for the sole purpose of fueling compressor equipment used in the
conversion process, is not a sale of gas to the operator of the compressor equipment.
3. If a seller is entitled to a deduction pursuant to subsection B, paragraph 15, subdivision (b) of this section, the department may
require the purchaser to establish that the requirements of subsection B, paragraph 15, subdivision (b) of this section have been satisfied.
If the purchaser cannot establish that the requirements of subsection B, paragraph 15, subdivision (b) of this section have been satisfied,
the purchaser is liable in an amount equal to any tax, penalty and interest which the seller would have been required to pay under article 1
of this chapter if the seller had not made a deduction pursuant to subsection B, paragraph 15, subdivision (b) of this section. Payment of
the amount under this subsection exempts the purchaser from liability for any tax imposed under article 4 of this chapter and related to
the tangible personal property purchased. The amount shall be treated as transaction privilege tax to the purchaser and as tax revenues
collected from the seller to designate the distribution base pursuant to section 42-5029.
T. For the purposes of section 42-5032.01, the department shall separately account for revenues collected under the retail
classification from businesses selling tangible personal property at retail:
1. On the premises of a multipurpose facility that is owned, leased or operated by the tourism and sports authority pursuant to
title 5, chapter 8.
2. At professional football contests that are held in a stadium located on the campus of an institution under the jurisdiction of the
Arizona board of regents.

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

V. For the purposes of this section:
1. "Aircraft" includes:
   (a) An airplane flight simulator that is approved by the federal aviation administration for use as a phase II or higher flight
   (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.
2. "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.
3. "Selling at retail" means a sale for any purpose other than for resale in the regular course of business in the form of tangible
personal property, but transfer of possession, lease and rental as used in the definition of sale mean only such transactions as are found
on investigation to be in lieu of sales as defined without the words lease or rental.
W. For the purposes of subsection J of this section:
1. "Assembler" means a person who unites or combines products, wares or articles of manufacture so as to produce a change in
form or substance without changing or altering the component parts.
2. "Manufacturer" means a person who principally engages in the fabrication, production or manufacture of products, wares
or articles for use from raw or prepared materials, imparting to those materials new forms, qualities, properties and combinations.
3. "Modifies" means a person who reworks, changes or adds to products, wares or materials of manufacture.
4. "Overhead materials" means tangible personal property, the gross proceeds of sales or gross income derived from that would otherwise be included in the retail classification, and that are 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.

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

6. "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. FOR THIS PURPOSE, "CONTRACTOR" HAS ITS ORDINARY AND COMMON MEANING AND DOES NOT HAVE THE MEANING PRESCRIBED BY SECTION 42-5001.

Sec. 14. Section 42-5071, Arizona Revised Statutes, is amended to read:

42-5071. Personal property rental classification
A. The personal property rental classification is comprised of the business of leasing or renting tangible personal property for a consideration. The tax does not apply to:

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

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

3. Leasing or renting tangible personal property by a parent corporation to a subsidiary corporation or by a subsidiary corporation to another subsidiary of the same parent corporation if taxes were paid under this chapter on the gross proceeds or gross income accruing from the initial sale of the tangible personal property. For the purposes of this paragraph, "subsidiary" means a corporation of which at least eighty per cent of the voting shares are owned by the parent corporation.

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

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

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

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

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

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

2. Leases or rentals of tangible personal property which, if it had been purchased instead of leased or rented by the lessee, would have been exempt under:
   (a) Section 42-5061, subsection A, paragraph 8, 9, 12, 13, 25, 29, 54 49 or 54.
   (b) Section 42-5061, subsection B, except that a lease or rental of new machinery or equipment is not exempt pursuant to:
      (i) Section 42-5061, subsection B, paragraph 13 if the lease is for less than two years.
      (ii) Section 42-5061, subsection B, paragraph 21.
   (c) Section 42-5061, subsection J, paragraph 1.
   (d) Section 42-5061, subsection N.

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

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

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

6. The sales price of land, which shall not exceed the fair market value.

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

8. The gross proceeds of sales or gross income derived from a subcontract to pass to the government or that includes provisions incorporating such title passing clauses in a government contract into the subcontract.

Sec. 15. Section 42-5075, Arizona Revised Statutes, is amended to read:

42-5075. Prime contracting classification: exemptions: definitions
A. Prime contracting classification is comprised of the business of prime contracting and dealership of manufactured buildings. Sales for resale to another dealerships of manufactured buildings are not subject to tax. Sales for resale do not include sales to a lessor of manufactured buildings. The sale of a manufactured building is not taxable under this chapter. The proceeds from alteration and repairs to a used manufactured building are taxable under this section.

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

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

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

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

4. The gross proceeds of sales or gross income derived from a contract entered into for the construction, alteration, repair, addition, subtraction, improvement, movement, wrecking or demolition of any building, highway, road, railroad, excavation, manufactured building or other structure, project, development or improvement located in a military reuse zone for providing aviation or aerospace services or for a manufacturer, assembler or fabricator of aviation or aerospace products within an active military reuse zone after the zone is initially established or renewed under section 41-1531. To be eligible to qualify for this deduction, beginning before work under the contract has begun, the prime contractor must apply for a letter of qualification from the department of revenue. The gross proceeds of sales or gross income derived from a contract to construct a qualified environmental technology
manufacturing, producing or processing activity, as described in section 41-1514.04, and from subsequent construction and installation contracts that begin within ten years after the start of initial construction. To qualify for this deduction, before beginning work under the contract, the prime contractor must obtain a letter of qualification from the department of revenue. This paragraph shall apply for ten full consecutive calendar or fiscal years after the start of initial construction.

6. The gross proceeds of sales or gross income from a contract to provide for one or more of the following actions, or a contract for site preparation, constructing, installing or otherwise altering tangible personal property, machinery, equipment or other tangible personal property that is deducted from the tax base of the retail classification pursuant to section 42-5061, subsection B, or that is exempt from use tax pursuant to section 42-5159, subsection B, and that does not become a permanent attachment to a building, highway, road, railroad, excavation or manufactured building or other structure, project, development or improvement. If the ownership of the realty is separate from the ownership of the machinery, equipment or tangible personal property, the determination as to permanent establishment shall be made as if the ownership were the same. The deduction provided in this paragraph does not include asbestos removal or the construction or use of ancillary structures such as maintenance sheds, offices or storage facilities for unattached equipment, pollution control equipment, facilities or other control items required or to be used by a person to prevent or control contamination before it reaches the environment.

7. The gross proceeds of sales or gross income that is derived from a contract entered into for the installation, assembly, repair or maintenance of machinery, equipment or other tangible personal property that is deducted from the tax base of the retail classification pursuant to section 42-5061, subsection B, or that is exempt from use tax pursuant to section 42-5159, subsection B, and that does not become a permanent attachment to a building, highway, road, railroad, excavation or manufactured building or other structure, project, development or improvement. If the ownership of the realty is separate from the ownership of the machinery, equipment or tangible personal property, the determination as to permanent establishment shall be made as if the ownership were the same. The deduction provided in this paragraph does not include asbestos removal or the construction or use of ancillary structures such as maintenance sheds, offices or storage facilities for unattached equipment, pollution control equipment, facilities or other control items required or to be used by a person to prevent or control contamination before it reaches the environment.

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

9. The gross proceeds of sales or gross income derived from a contract entered into for the construction of a state university research infrastructure project if the project has been reviewed by the joint committee on capital review before the university enters into the construction contract for the project. For the purposes of this paragraph, "research infrastructure" has the same meaning prescribed in section 15-1670.

10. The attributable amount shall not exceed the value of the development fees actually imposed.

11. The attributable amount is equal to the total amount of development fees paid by the prime contractor or subcontractor, and the total development fees credited in exchange for the construction of, to contribution or dedication of real property for providing public infrastructure, public safety or other public services necessary to the development. The real property must be the subject of the development fees.

12. For taxable periods beginning from and after January 1, 2017, the gross proceeds of sales or gross income attributable to development fees that are incurred in relation to a contract for construction, development or improvement of real property and that are paid by a prime contractor or subcontractor. For the purpose of this paragraph, "development fees" means fees imposed to offset capital costs of providing public infrastructure, public safety or other public services to a development and authorized pursuant to section 9-463.05, section 11-1102 or title 48 regardless of the jurisdiction to which
the fees are paid.

20. THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM A CONTRACT WITH THE OWNER OF REAL PROPERTY FOR THE MAINTENANCE, REPAIR OR REPLACEMENT OF EXISTING PROPERTY IF THE CONTRACT DOES NOT INCLUDE MODIFICATION ACTIVITIES. FOR THE PURPOSES OF THIS PARAGRAPH, EACH CONTRACT OR PROJECT IS INDEPENDENT OF ANOTHER CONTRACT. A CONTRACTOR THAT HAS GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM A CONTRACT THAT IS NOT SUBJECT TO TAX UNDER THIS PARAGRAPH IS SUBJECT TO TAX ON A CONTRACT THAT INCLUDES MODIFICATION ACTIVITIES.

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

1. A prime contractor may establish entitlement to the deduction by both:
   a. Marking the invoice for the transaction to indicate that the gross proceeds of sales or gross income derived from the transaction was deducted from the base.
   b. Obtaining a certificate executed by the purchaser indicating the name and address of the purchaser, the precise nature of the business of the purchaser, the purpose for which the purchase was made, the necessary facts to establish the deductibility of the property under section 42-5061, subsection B, and a certification that the person executing the certificate is authorized to do so on behalf of the purchaser. The certificate may be disregarded if the prime contractor has reason to believe that the information contained in the certificate is not accurate or complete.

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

3. The department may prescribe a form for the certificate described in paragraph 1, subdivision (b) of this subsection. The department may also adopt rules that describe the transactions with respect to which a person is not entitled to rely solely on the information contained in the certificate provided in paragraph 1, subdivision (b) of this subsection but must instead obtain such additional information as is necessary to determine the validity of the deduction.

4. If a prime contractor is entitled to a deduction by complying with paragraph 1 of this subsection, the department may require the purchaser who caused the execution of the certificate to establish the accuracy and completeness of the information required to be contained in the certificate that would entitle the prime contractor to the deduction. If the purchaser cannot establish the accuracy and completeness of the information, the purchaser is liable in an amount equal to any tax, penalty and interest that the prime contractor would have been required to pay under article 1 of this chapter if the prime contractor had not complied with paragraph 1 of this subsection. The amount of the tax liability under this paragraph may be imposed under article 4 of this chapter. The amount shall be treated as a transaction privilege tax to the purchaser and as tax revenues collected from the prime contractor in order to designate the distribution base for purposes of section 42-5029.

D. Subcontractors or others who perform services in respect to any improvement, building, highway, road, railroad, excavation, manufactured building or other structure, project, development or improvement are not subject to tax if they can demonstrate that the work was performed at a location that is outside the state. "Construction phase services" means services for the execution and completion of any modification, including the following:

1. "Construction phase services" means services for the execution and completion of any modification, including the following:
   a. Administration or supervision of any modification performed on the project, including team management and coordination.
scheduling, cost controls, submittal process management, field management, safety program, close-out process and warranty period services.

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

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

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

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

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

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

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

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

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

(i) Master schedule updates.

(ii) Modification work cash flow projection updates.

(iii) Site reports made on a periodic basis.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(vi) Any bond and insurance premiums.

(vii) Any applicable taxes.

(viii) Any applicable fees.

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

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

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

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

O. Notwithstanding subsection P, paragraph 8 of this section, a person owning real property who enters into a contract for sale of the real property, who is responsible to the new owner of the property for modifications made to the property in the period subsequent to the transfer of title and who receives the modification solely for purposes of taxing the gross proceeds of sale or gross income from the modifications made subsequent to the transfer of title.

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

2. If the original owner enters into an agreement separate from the contract for sale of the real property providing for amounts to be paid to the original owner for the modifications to be made in the period subsequent to the transfer of title, the amounts are included in the original owner's gross proceeds of sale or gross income received for the modifications made subsequent to the transfer of title. The original owner's gross proceeds of sale or gross income received for the modifications shall be determined according to the following methodology:

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

2. If the original owner enters into an agreement separate from the contract for sale of the real property providing for amounts to be paid to the original owner for the modifications to be made in the period subsequent to the transfer of title, the amounts are included in the original owner's gross proceeds of sale or gross income received for the modifications made subsequent to the transfer of title. The original owner's gross proceeds of sale or gross income received for the modifications shall be determined according to the following methodology:

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

2. If the original owner enters into an agreement separate from the contract for sale of the real property providing for amounts to be paid to the original owner for the modifications to be made in the period subsequent to the transfer of title, the amounts are included in the original owner's gross proceeds of sale or gross income received for the modifications made subsequent to the transfer of title. The original owner's gross proceeds of sale or gross income received for the modifications shall be determined according to the following methodology:

1. If any part of the contract for sale of the property specifies amounts to be paid to the original owner for the modifications to be made in the period subsequent to the transfer of title, the amounts are included in the original owner's gross proceeds of sale or gross income under this section. Proceeds from the sale of the property that are received after transfer of title and that are unrelated to the modifications made subsequent to the transfer of title are not considered gross proceeds of sale or gross income from the modifications made subsequent to the transfer of title.
1. "Contracting" means engaging in business as a contractor.
2. "Contractor" is synonymous with the term "builder" and means any person or organization that undertakes to or offers to undertake to, or purports to have the capacity to undertake to, or submits a bid to, or does personally or by or through others, modify any building, highway, road, railroad, excavation, manufactured building or other structure, project, development or improvement, or to do any part of such a project, including the erection of scaffolding or other structure or works in connection with such a project, and includes subcontractors and specialty contractors. For all purposes of taxation or deduction, this definition shall govern without regard to whether or not such contractor is acting in fulfillment of a contract.

4. (a) "Manufactured building" means a manufactured home, mobile home or factory-built building, as defined in section 41-2142.

4. (b) "Dealercsship of Manufactured buildings BUILDING DEALER" means a dealer who either:
(a) is licensed pursuant to title 41, chapter 16 and who sells manufactured buildings to the final consumer.
(b) supervises, performs or coordinates the excavation, demolition, manufacturing, fabrication or processing of site improvements— OR THE SETUP or moving of a manufactured building including the contracting, if any, with any subcontractor or specialty contractor for the completion of the contract.
5. "Modification" means construction, alteration, repair, addition, subtraction, improvement, movement, wreckage or demolition.
6. "Modify" means to construct, alter, repair, add to, subtract from, move, weld or demolish.
7. "Prime contracting" means engaging in business as a prime contractor.
8. "Prime contractor" means a contractor who supervises, performs or coordinates the modification of any building, highway, road, railroad, excavation, manufactured building or other structure, project, development or improvement including the contracting, if any, with any subcontractor or specialty contractor and who is responsible for the completion of the contract. Except as provided in subsections E and O of this section, a person who owns real property, who engages one or more contractors to modify that real property and who does not itself modify that real property is not a prime contractor within the meaning of this paragraph regardless of the existence of a contract for sale or the subsequent sale of that real property.
9. "Sale of a used manufactured building" does not include a lease of a used manufactured building.
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(a) Charitable or educational institutions that are exempt from taxation under section 501(c)(3) of the internal revenue code.

(b) 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.

(k) 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.

(l) 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 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.

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) A 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) 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 prescribed or recommended 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.


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 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 during the employees' hours of employment.

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.

32. Machinery, equipment, technology or related supplies that are only useful to assist a person who is physically disabled as defined in section 46-191, 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.

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 who is physically disabled as defined in section 46-191, 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 for human food, drink or condiment.

36. Printing equipment that is directly enters into and becomes an ingredient or component part of cards used in printing identification cards.

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 in printing 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, 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, and which are 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 upon 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 I of this chapter or if the personal property liquidation was a casual activity or transaction.

41. 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 for the transportation of passengers or property between points in the same state or between points in different states.

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 charitable organization and consisting of food, beverages and condiments and accessories used 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.

44. Tangible personal property purchased by a charitable organization and consisting of food, beverages and condiments and accessories used 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.

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 that pressurizes the pipeline.

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 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 motor 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 power entity to track availability of energy derived from a renewable energy resource or the kilowatt hour equivalent of conventional energy resources displaced by distributed renewable energy resources.

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. "Metalurgical operations" includes operations used in processing or refining ores, minerals or metal.

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 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 which 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 substations 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 holding a federal certificate of public convenience and necessity, a supplemental air carrier certificate under federal aviation regulations (14 Code of Federal Regulations part 121) or 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.

www.azleg.gov/FormatDocument.asp?inDoc=/legtext/51leg/1r/bills/hb2111s.htm&Session_ID=110
(b) Any foreign government, or sold to 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.

9. Machinery, tools, equipment and related supplies used or consumed directly in repairing, remodeling or maintaining aircraft, aircraft engine or aircraft component part by or on behalf of a certificated or licensed carrier of 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 which THAT are used directly to transport persons or property for hire or pursuant to a governmentally adopted and controlled urban mass transportation program and which 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.


13. New machinery and equipment consisting of 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 which THAT has never been sold at retail except pursuant to leases which 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 non-technological 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. If property that is 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.

16. 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.

17. 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.

18. 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 and that 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 and that was purchased pursuant to the television broadcast 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.

23. 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 14 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.
A. The department may enforce the collection of taxes in any manner authorized by chapter 5 of this title.

B. The director may enter into agreements with cities and towns of this state that levy transaction privilege and affiliated excise taxes to provide unified or coordinated licensing, collection and auditing programs for such taxes levied by any city or town, and the department and any city or town may enter into agreements with the department to provide for unified or coordinated licensing, collection and auditing programs for such transaction privilege and affiliated excise taxes levied by such cities and towns and for taxes levied pursuant to chapter 5 of this title.

C. The director shall establish with such cities and towns a uniform licensing, collection and audit committee to direct such unified or coordinated functions.

D. A taxpayer who is required to pay any municipal transaction privilege and affiliated excise taxes to a city or town that has not entered into an intergovernmental contract or agreement with the department of revenue under subsection B of this section in effect as of January 1, 2013, to provide a coordinated method of collecting municipal transaction privilege and affiliated excise taxes imposed by the state or cities or towns pursuant to title 11, chapter 7, article 42-6001 shall report to the department on or before September 1 of each year the total amount of those taxes collected by the city or town.

E. A city or town that does not enter into an agreement with the department for the collection of municipal transaction privilege and affiliated excise taxes shall report to the department on or before September 1 of each year the total amount of those taxes collected by the city or town.

F. If a city or town shall fail to pay the taxes due to the department of revenue, the director may withhold or suspend the city or town's license or permit to engage in business in the city or town.

G. The methods and means of payment of transactions privilege and affiliated excise taxes shall be in the same manner as authorized by chapter 5 of this title unless otherwise provided by the ordinance of such city or town. The department, when acting on behalf of such city or town, shall utilize the procedures for levying, collecting and enforcing the payment of such taxes on behalf of the city or town.

H. A city or town shall not:

1. Employ auditors on a contingent fee basis or enter into contingent fee contracts for auditing any transaction privilege or affiliated excise taxes levied by the city or town.

2. Enter into contracts with a third party, other than this state or a political subdivision of this state, for the collection, administration or processing of transaction privilege or affiliated taxes; levied by the city or town. This paragraph does not apply to a city or town that enters into a contract with a third party solely for the collection of delinquent city or town transaction privilege or affiliated taxes for which a liability has been established.

I. An intergovernmental contract or agreement entered into pursuant to section 42-6001, subsection A shall include the following provisions:

1. Such contracts shall be conducted in accordance with standard audit procedures defined in the Department of Revenue Audit Manual.

2. All auditors shall be trained in accordance with the policies of the department.

3. Except as provided in paragraph 4 of this subsection, the audit of a taxpayer that has locations in two or more cities or towns shall be conducted by the department.

J. The department may enforce the collection of taxes in any manner authorized by chapter 5 of this title.

K. The director may enter into agreements with cities and towns of this state that levy transaction privilege and affiliated excise taxes to provide unified or coordinated licensing, collection and auditing programs for such taxes levied by cities and towns and for taxes levied pursuant to chapter 5 of this title.

L. The director may enter into agreements with cities and towns for the collection of all such taxes levied by the department of revenue.

M. The methods and means of payment of taxes imposed by the department of revenue shall be in the same manner as authorized by chapter 5 of this title unless otherwise provided by the ordinance of such city or town.
4. ALL AUDITS SHALL INCLUDE ALL TAXING JURISDICTIONS IN THIS STATE REGARDLESS OF WHICH JURISDICTION CONDUCTS THE AUDIT. A CITY OR TOWN MAY CONDUCT AN AUDIT OF ANY TAXPAYER THAT IS ENGAGED IN BUSINESS IN ONLY ONE CITY OR TOWN AND ANY OTHER TAXPAYER AUTHORIZED BY THE DEPARTMENT.
5. THE DEPARTMENT SHALL ISSUE ALL AUDIT ASSESSMENTS ON BEHALF OF ALL TAXING JURISDICTIONS IN A SINGLE NOTICE TO THE TAXPAYER.
6. APPEALS OF AUDIT ASSESSMENTS SHALL BE DIRECTED TO THE DEPARTMENT.
7. THE DEPARTMENT SHALL NOTIFY ALL AFFECTED CITIES AND TOWNS BEFORE ENTERING INTO ANY COMPRISING, CLOSING, SETTLEMENT OR OTHER AGREEMENT WITH A PERSON RELATED TO THE TAX LEVIED AND IMPOSED BY THE CITIES AND TOWNS.

Sec. 20. Section 42-6004, Arizona Revised Statutes, is amended to read:

42-6004. Exemption from municipal tax
A. A city, town or special taxing district shall not levy a transaction privilege, sales, use or other similar tax on:

1. Exhibition events in this state sponsored, conducted or operated by 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.

2. Interstate telecommunications services, which include that portion of telecommunications services, such as subscriber line service, allocable by federal law to interstate telecommunications service.

3. Sales of warranty or service contracts.

4. Sales of motor vehicles to nonresidents of this state for use outside this state if the vendor MOTOR VEHICLE DEALER ships or delivers the motor vehicle to a destination outside this state.

5. Interest on finance contracts.

6. Dealer documentation fees on the sales of motor vehicles.

7. Sales of food or other 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) but may impose such a tax on other sales of food. If a city, town or special taxing district exempt sales of food from its tax or imposes a different transaction privilege rate on the gross proceeds of sales or gross income from sales of food and nonfood items, it shall use the definition of food prescribed by rule adopted by the department pursuant to section 42-5106.

8. Sales of internet access services to the person's subscribers and customers. For the purposes of this paragraph:

(a) "Internet" means the computer and telecommunications facilities that comprise the interconnected worldwide network of networks that employ the transmission control protocol or internet protocol, or any predecessor or successor protocol, to communicate information of all kinds by wire or radio.

(b) "Internet access" means a service that enables users to access content, information, electronic mail or other services over the internet. Internet access does not include telecommunication services provided by a common carrier.

9. The gross proceeds of sales or gross income retained by the Arizona exposition and state fair board from ride ticket sales at the annual Arizona state fair.


11. The gross proceeds of sales or gross income derived from a commercial lease in which a reciprocal insurer or a corporation leases real property to an affiliated corporation. For the purposes of this paragraph:

(a) "Affiliated corporation" means a corporation that meets one of the following conditions:

(i) The corporation owns or controls at least eighty per cent of the lessor.

(ii) The corporation is at least eighty per cent owned or controlled by the lessor.

(iii) The corporation is at least eighty per cent owned or controlled by a corporation that also owns or controls at least eighty per cent of the lessor.

(iv) The corporation is at least eighty per cent owned or controlled by a corporation that is at least eighty per cent owned or controlled by a reciprocal insurer.

(b) For the purposes of subdivision (a) of this paragraph, ownership and control are determined by reference to the voting shares of a corporation.

(c) "Reciprocal insurer" has the same meaning prescribed in section 20-762.

12. The gross proceeds of sales or gross income derived from a commercial lease in which a corporation leases real property to a corporation of which at least eighty per cent of the voting shares of each corporation are owned by the same shareholders.

THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM A CONTRACT WITH THE OWNER OF REAL PROPERTY, INCLUDING ALL ADDITIONS, ALTERATIONS, SUBTRACTIONS, IMPROVEMENTS, MOVEMENT, WRECKAGE OR DEMOLITION, CONTINUING TO EXIST DURING THE TERM OF THE CONTRACT, ARE NOT SUBJECT TO TAX IF THE CONTRACT DOES NOT INCLUDE MODIFICATION ACTIVITIES. FOR THE PURPOSES OF THIS PARAGRAPH:

(a) EACH CONTRACT OR PROJECT IS INDEPENDENT OF ANOTHER CONTRACT.

(b) "MODIFICATION" MEANS CONSTRUCTION, ALTERATION, ADDITION, SUBTRACTION, IMPROVEMENT, MOVEMENT, WRECKAGE OR DEMOLITION.

B. A city, town or other taxing jurisdiction shall not levy a transaction privilege, sales, use, franchise or other similar tax or fee, however denominated, on natural gas or liquefied petroleum gas used to propel a motor vehicle.

C. A city, town or other taxing jurisdiction shall not levy a transaction privilege, sales, gross receipts, use, franchise or other similar tax or fee, however denominated, on gross proceeds of sales or gross income derived from any of the following:

1. A motor carrier's use on the public highways in this state if the motor carrier is subject to a fee prescribed in title 28, chapter 16, article 4.

2. Leasing, renting or licensing a motor vehicle subject to and upon ON which the fee has been paid under title 28, chapter 16, article 4.

3. The sale of a motor vehicle and any repair and replacement parts and tangible personal property becoming a part of such motor vehicle 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, renting or licensing such property.

4. Incarcerating or detaining in a privately operated prison, jail or detention facility prisoners who are under the jurisdiction of the United States, this state or any other state or a political subdivision of this state or of any other state.

5. Transferring for hire persons, freight or property by light motor vehicles subject to a fee under title 28, chapter 15, article 4.

6. Any amount attributable to development fees that are incurred in relation to the construction, development or improvement of real property and paid by the taxpayer as defined in the model city tax code or by a contractor providing services to the taxpayer. For the purposes of this paragraph:

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

(b) The attributable amount is equal to the total amount of development fees paid by the taxpayer or by a contractor providing services to the taxpayer and the total amount of development fees credited in exchange for the construction of, contribution to or dedication of real property for providing public infrastructure, public safety or other public services necessary to the development. The real property must be the subject of the development fees.

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

D. A city, town or other tax jurisdiction shall not levy a transaction privilege, sales, use, franchise or other similar tax or fee.
A. If approved by the qualified electors voting at a countywide election, a county with a population of one million two hundred thousand or more persons shall levy and the department shall collect a tax as provided by this section, in addition to all other taxes.

B. The tax shall be levied and collected:

1. At a rate of not more than ten per cent of the transaction privilege tax rate prescribed by section 42-5010, subsection A applying, as of January 1, 1990, to each person engaging or continuing in the county in a business taxed under chapter 5, article 1 of this title.

2. In counties with a population of four hundred thousand or fewer persons, shall be deposited in the regional transportation fund pursuant to section 48-9142 or the regional transportation fund pursuant to section 48-5307 or shall be allocated between both funds.

C. Any subsequent reduction in the transaction privilege tax rate prescribed by chapter 5, article 1 of this title shall not reduce the tax that is approved and collected as prescribed in this section. The department shall collect the tax at a variable rate if the variable rate is specified in the ballot proposition. The department shall collect the tax at a modified rate if approved by a majority of the qualified electors voting.

D. The net revenues collected under this section shall be distributed and deposited as follows for use consistent with the regional transportation plan adopted under title 28, chapter 17, article 1:

1. 56.2 per cent to the regional area road fund pursuant to section 28-6303 for freeways and other routes in the state highway system, including capital expense and maintenance.

2. 10.5 per cent to the regional area road fund pursuant to section 28-6303 for major arterial streets and intersection improvements, including capital expense and implementation studies.

3. 33.3 per cent to the public transportation fund pursuant to section 48-5103 for:
   (a) Capital costs, maintenance and operation of public transportation classifications.
   (b) Capital costs and utility relocation costs associated with a light rail public transit system.

Sec. 23. Section 42-6106, Arizona Revised Statutes, is amended to read:

42-6106. County transportation excise tax

A. If approved by the qualified electors voting at a countywide election, the regional transportation authority in any county shall levy and the department shall collect a transportation excise tax up to the rate authorized by this section in addition to all other taxes.

B. The tax shall be levied and collected:

1. At a rate of not more than ten per cent of the transaction privilege tax rate prescribed by section 42-5010, subsection A in effect on January 1, 1990 to each person engaging or continuing in the county in a business taxed under chapter 5, article 1 of this title.

2. At a rate of not more than ten per cent of the transaction privilege tax rate prescribed by section 42-5352, subsection A, at a rate equal to the transaction privilege tax rate under paragraph 1 applying to persons engaging or continuing in the county in the utilities transaction privilege tax classification.

C. Any subsequent reduction in the transaction privilege tax rate prescribed by chapter 5, article 1 of this title shall not reduce the tax that is approved and collected as prescribed in this section. The department shall collect the tax at a variable rate if the variable rate is specified in the ballot proposition. The department shall collect the tax at a modified rate if approved by a majority of the qualified electors voting.

D. The net revenues collected under this section:

1. In counties with a population exceeding four hundred thousand persons, shall be deposited in the regional transportation fund pursuant to section 48-5307.

2. In counties with a population of four hundred thousand or fewer persons, shall be deposited in the public transportation authority fund pursuant to section 28-9142 or the regional transportation fund pursuant to section 48-5307 or shall be allocated between both funds.

E. The tax shall be levied under this section beginning January 1 or July 1, whichever date occurs first after approval by the voters, and may be in effect for a period of not more than twenty years.

Sec. 24. Section 42-6107, Arizona Revised Statutes, is amended to read:

42-6107. County transportation excise tax

A. If approved by the qualified electors voting at a countywide special election, or a majority of the qualified electors voting on the ballot proposition at a general election, approves the transportation excise tax, the county shall levy and the department shall collect a tax:

1. At a rate of not more than ten per cent of the transaction privilege tax rate as prescribed by section 42-5010, subsection A applying, as of January 1, 1990, to each person engaging or continuing in the county in a business taxed under chapter 5, article 1 of this title.
2. In the case of persons subject to the tax imposed under section 42-5352, subsection A, at a rate of not more than 305 cents per gallon of jet fuel sold TEN PER CENT OF THE RATE PRESCRIBED BY SECTION 42-5352, SUBSECTION A.

3. On the use or consumption of electricity or natural gas by retail electric or natural gas customers in the county who are subject to use tax under section 42-5155, at a rate equal to the transaction privilege tax rate under paragraph 1 applying to persons engaging or continuing in the county in the utilities transaction privilege tax classification. If a majority of the qualified electors in the county approved the transportation excise tax under this section before 1998, a tax under this paragraph may be approved by resolution adopted by a majority of the board of supervisors.

B. The net revenues collected under this section within a county shall be deposited in the county's regional area road fund pursuant to title 28, chapter 17, article 3.

C. The tax shall be levied under this section beginning January 1 or July 1, whichever date occurs first after approval by the voters, and may be in effect for a period of not more than twenty years.

Sec. 25. **Department of revenue; emergency rule making**

The department of revenue may adopt emergency rules pursuant to section 41-1026, Arizona Revised Statutes, as necessary to administer this act.

Sec. 26. **City and town auditors**

Notwithstanding section 42-6001, Arizona Revised Statutes, as amended by this act, for the period beginning January 1, 2015 and ending December 31, 2015, the department shall enter into an agreement with the governing body of an incorporated city or town to furnish part-time or full-time personnel to perform audit services within the boundaries of the city or town. The incorporated city or town shall pay to the department the amount agreed to be paid.

Sec. 27. **Legislative intent**

By passing this act, the legislature:

1. Intends to simplify the administration of Arizona's transaction privilege tax in order to alleviate taxpayer confusion, relieve businesses from unnecessary compliance costs and to improve, at both the state and local level, the coordination of the revenue collection and audit function through the implementation of a single, unified, collection and audit system, thereby increasing voluntary compliance.

2. Does not intend to change the taxability of or to exempt from the tax imposed under section 42-5075, Arizona Revised Statutes, a contractor engaged in the modification of real property as part of a major remodel project.

Sec. 28. **Revenue impact report**

A. The joint legislative budget committee shall prepare a report of the revenue impact analysis resulting from this act on or before September 30, 2016. The analysis shall include an estimated impact on revenues for this state and the counties, cities and towns.

B. The joint legislative budget committee shall provide copies of the report to the governor, president of the senate, speaker of the house of representatives, governor's office of strategic planning and budgeting and secretary of state.

Sec. 29. **Effective date**

This act is effective from and after December 31, 2014.