

State of Arizona
House of Representatives
Fifty-fourth Legislature
First Regular Session
2019

CHAPTER 273
HOUSE BILL 2757

AN ACT

AMENDING TITLE 9, CHAPTER 4, ARTICLE 8, ARIZONA REVISED STATUTES, BY ADDING SECTION 9-491.02; AMENDING SECTIONS 42-1001, 42-1108, 42-5001 AND 42-5005, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTIONS 42-5042 AND 42-5043; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2018, CHAPTER 104, SECTION 15 AND CHAPTER 249, SECTION 1; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2018, CHAPTER 104, SECTION 15, CHAPTER 249, SECTION 1 AND CHAPTER 263, SECTION 1; AMENDING SECTIONS 42-5159 AND 42-6002, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 6, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-6017; AMENDING SECTIONS 43-105, 43-222, 43-323, 43-945, 43-1001, 43-1011, 43-1021, 43-1022, 43-1023, 43-1024 AND 43-1041, ARIZONA REVISED STATUTES; REPEALING SECTION 43-1043, ARIZONA REVISED STATUTES; AMENDING SECTIONS 43-1072.02 AND 43-1073, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1073.01; AMENDING SECTIONS 43-1095, 43-1098, 43-1121 AND 43-1122, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Title 9, chapter 4, article 8, Arizona Revised Statutes,
3 is amended by adding section 9-491.02, to read:

4 9-491.02. Business license; out-of-state businesses;
5 prohibition

6 A CITY OR TOWN MAY NOT REQUIRE A PERSON TO OBTAIN A BUSINESS LICENSE
7 TO CONDUCT BUSINESS WITH PURCHASERS LOCATED IN THAT CITY OR TOWN IF THE
8 PERSON IS REQUIRED TO PAY TAX IN THIS STATE ONLY BECAUSE THE PERSON'S
9 BUSINESS EXCEEDS THE THRESHOLD PROVIDED IN SECTION 42-5043.

10 Sec. 2. Section 42-1001, Arizona Revised Statutes, is amended to
11 read:

12 42-1001. Definitions

13 In this title, unless the context otherwise requires:

14 1. "Board" or "state board" means either the state board of tax
15 appeals or the state board of equalization, as applicable.

16 2. "Court" means the tax court or superior court, whichever is
17 applicable.

18 3. "Department" means the department of revenue.

19 4. "Director" means the director of the department.

20 5. "Electronically send" or "send electronically" means to send by
21 either e-mail or the use of an electronic portal.

22 6. "Electronic portal" means a secure location on a website
23 established by the department that requires the receiver to enter a
24 password to access.

25 7. "E-mail" means an electronic transmission of a message to an
26 e-mail address. If the message contains confidential information, ~~then~~
27 ~~"e-mail"~~ means the electronic transmission of a message to an e-mail
28 address using encryption software that requires the receiver to enter a
29 password before the message can be retrieved and viewed.

30 8. "Internal revenue code" means the United States internal revenue
31 code of 1986, as amended and in effect as of January 1, ~~2018~~ 2019,
32 including those provisions that became effective during ~~2017~~ 2018 with the
33 specific adoption of their retroactive effective dates but excluding all
34 changes to the code enacted after January 1, ~~2018~~ 2019.

35 Sec. 3. Section 42-1108, Arizona Revised Statutes, is amended to
36 read:

37 42-1108. Audit; deficiency assessments; nonaudit adjustments;
38 electronic filing

39 A. If a taxpayer fails to file a return required by this title or
40 title 43, or if the department is not satisfied with the return or payment
41 of the amount of tax required to be paid under either title, the
42 department may examine any return, including any books, papers, records or
43 memoranda relating to the return, to determine the correct amount of tax.
44 This examination must occur within the time periods prescribed by section

1 42-1104 and may be accomplished through a detailed review of transactions
2 or records or by a statistically valid sampling method.

3 B. The department shall give the taxpayer notice of its
4 determination of a deficiency by mail or as prescribed by subsection C of
5 this section, and the deficiency, plus penalties and interest, is final
6 forty-five days ~~from~~ AFTER the date of receipt of the notice to the
7 taxpayer unless an appeal is taken to the department. For individual
8 income tax, the period is ninety days ~~from~~ AFTER the date of mailing. In
9 the case of a joint income tax return, the notice may be a single joint
10 notice mailed to the last known address, but if either spouse notifies the
11 department that separate residences have been established, the department
12 shall mail duplicate originals of the joint notice to each spouse.

13 C. Except for individual income tax, the department may issue
14 notice of its determination of a deficiency under subsection B of this
15 section by using an electronic portal in lieu of mail, if all of the
16 requirements of this subsection are met, for taxable periods beginning
17 from and after December 31, 2018 or when the department establishes the
18 electronic portal, whichever is later. The use of the electronic portal
19 in lieu of mail is subject to the following requirements and conditions:

20 1. The taxpayer shall provide an e-mail address to the department
21 to receive the ~~written~~ notice of its determination of a deficiency using
22 the electronic portal. The taxpayer shall notify the department of any
23 update to the taxpayer's e-mail address.

24 2. The department shall notify the taxpayer, using the taxpayer's
25 e-mail address, on the same day the notice of its determination of a
26 deficiency is posted to the electronic portal.

27 3. The date of receipt for a notice provided by electronic portal
28 is the later of the date the notice is posted to the electronic portal or
29 the date the notification is received by the taxpayer. A notification
30 sent by e-mail is considered to be received by the taxpayer on the day it
31 is sent by the department.

32 D. If a deficiency is determined and the assessment becomes final,
33 the department shall mail notice and demand to the taxpayer for the
34 payment of the deficiency. Notwithstanding section 42-1125, subsection E,
35 the deficiency assessed is due and payable at the expiration of ten days
36 ~~from~~ AFTER the date of the notice and demand.

37 E. A certificate by the department of the mailing or e-mailing of
38 the notices specified in this section is prima facie evidence of the
39 assessment of the deficiency and the giving of the notices.

40 F. Any amount of tax in excess of that disclosed by the return due
41 to a nonaudit adjustment, as listed in subsection G of this section,
42 notice of which has been mailed to the taxpayer, is not a deficiency
43 assessment within the meaning of this section. The taxpayer may not
44 protest or appeal as in the case of a deficiency assessment, based on such

1 a notice, and the assessment or collection of the amount of tax
2 erroneously omitted in the return is not prohibited by this article.

3 G. An adjustment due to any of the following is considered a
4 nonaudit adjustment:

5 1. An addition, subtraction, multiplication, division or other
6 mathematical error shown on any return.

7 2. The failure of the taxpayer to properly compute the tax
8 liability based on the taxable income reported on the return.

9 3. An incorrect usage or selection of information for a filed
10 return from tax tables, schedules or similar documents provided by the
11 department if the incorrect usage is apparent from the existence of other
12 information on the return.

13 4. An entry on a return that is inconsistent with an entry on a
14 schedule, form, statement, list or other document filed with the return.

15 5. An omission of information required on the return to
16 substantiate an entry.

17 6. An entry on a return of a deduction or credit in an amount that
18 exceeds a statutory limit if the limit is a monetary figure, a percentage,
19 a ratio or a fraction and the items entered into the application of this
20 limit appear on the return, including claiming a deduction or credit that
21 is not authorized by statute for the taxable period.

22 7. Missing or incorrect taxpayer identification numbers for the
23 purposes of claiming ~~personal~~ exemptions, ~~dependents~~ or credits.

24 8. An entry of a credit or deduction that requires a preapproval if
25 the credit or deduction has not been preapproved or if the entry is for
26 more than the preapproved amount.

27 9. An entry of a credit or deduction amount carried forward from a
28 prior year that is outside of the statutory period allowed for the
29 carryforward or is for an amount that is inconsistent with the taxpayer's
30 prior year returns.

31 H. If a taxpayer that files its return electronically is allowed to
32 input the information from a document into the electronic filing program
33 instead of providing the actual document with the return, the department
34 may request a copy of the document from the taxpayer at any time. If the
35 taxpayer provides the document, the department may adjust the return to
36 reflect the amounts on the document. If the taxpayer does not provide the
37 requested document within the period provided by the department, the
38 department may deny any deduction, credit or withholding that the document
39 is intended to substantiate.

40 ~~I. For the purposes of this section, "electronic portal" means a~~
41 ~~secure location on a website established by the department that requires~~
42 ~~the taxpayer to enter a password to access.~~

1 Sec. 4. Section 42-5001, Arizona Revised Statutes, is amended to
2 read:

3 42-5001. Definitions

4 In this article and article 2 of this chapter, unless the context
5 otherwise requires:

6 1. "Business" includes all activities or acts, personal or
7 corporate, **THAT ARE** engaged in or caused to be engaged in with the object
8 of gain, benefit or advantage, either directly or indirectly, but does not
9 include either:

10 (a) Casual activities or sales.

11 (b) The transfer of electricity from a solar photovoltaic
12 generation system to an electric utility distribution system.

13 2. "Distribution base" means the portion of the revenues derived
14 from the tax levied by this article and articles 5 and 8 of this chapter
15 designated for distribution to counties, municipalities and other purposes
16 according to section 42-5029, subsection D.

17 3. "Engaging", when used with reference to engaging or continuing
18 in business, includes the exercise of corporate or franchise powers.

19 4. "Gross income" means the gross receipts of a taxpayer derived
20 from trade, business, commerce or sales and the value proceeding or
21 accruing from the sale of tangible personal property or service, or both,
22 and without any deduction on account of losses.

23 5. "Gross proceeds of sales" means the value proceeding or accruing
24 from the sale of tangible personal property without any deduction on
25 account of the cost of property sold, expense of any kind or losses, but
26 cash discounts allowed and taken on sales are not included as gross
27 income.

28 6. ~~"Gross income"~~ and ~~"gross proceeds of sales"~~ do not include
29 goods, wares or merchandise, or **THE** value thereof, returned by customers
30 if the sale price is refunded either in cash or by credit, ~~NOT~~ **OR** the
31 value of merchandise traded in on the purchase of new merchandise when the
32 trade-in allowance is deducted from the sales price of the new merchandise
33 before completion of the sale.

34 7. "Gross receipts" means the total amount of the sale, lease or
35 rental price, as the case may be, of the retail sales of retailers,
36 including any services that are a part of the sales, valued in money,
37 whether received in money or otherwise, including all receipts, cash,
38 credits and property of every kind or nature, and any amount for which
39 credit is allowed by the seller to the purchaser without any deduction
40 from the amount on account of the cost of the property sold, materials
41 used, labor or service performed, interest paid, losses or any other
42 expense. Gross receipts do not include cash discounts allowed and taken
43 ~~NOT~~ **OR** the sale price of property returned by customers if the full sale
44 price is refunded either in cash or by credit.

1 8. "MARKETPLACE" MEANS A PHYSICAL OR ELECTRONIC PLACE, PLATFORM OR
2 FORUM, INCLUDING A STORE, BOOTH, INTERNET WEBSITE, CATALOG OR DEDICATED
3 SALES SOFTWARE APPLICATION, WHERE PRODUCTS, INCLUDING TANGIBLE PERSONAL
4 PROPERTY, ARE OFFERED FOR SALE.

5 9. "MARKETPLACE FACILITATOR":

6 (a) MEANS A PERSON THAT FACILITATES A RETAIL SALE BY A MARKETPLACE
7 SELLER BY LISTING OR ADVERTISING FOR SALE BY THE MARKETPLACE SELLER IN A
8 MARKETPLACE TANGIBLE PERSONAL PROPERTY AND, EITHER DIRECTLY OR INDIRECTLY,
9 THROUGH AGREEMENTS OR ARRANGEMENTS WITH THIRD PARTIES COLLECTING PAYMENT
10 FROM THE PURCHASER AND TRANSMITTING THAT PAYMENT TO THE MARKETPLACE
11 SELLER, REGARDLESS OF WHETHER THE MARKETPLACE FACILITATOR RECEIVES
12 COMPENSATION FOR THE MARKETPLACE FACILITATOR'S SERVICES.

13 (b) DOES NOT INCLUDE A PAYMENT PROCESSOR BUSINESS THAT IS APPOINTED
14 TO HANDLE PAYMENT TRANSACTIONS FROM VARIOUS CHANNELS, SUCH AS CHARGE
15 CARDS, CREDIT CARDS AND DEBIT CARDS, AND WHOSE SOLE ACTIVITY WITH RESPECT
16 TO MARKETPLACE SALES IS TO HANDLE TRANSACTIONS BETWEEN TWO PARTIES.

17 10. "MARKETPLACE SELLER" MEANS A PERSON THAT MAKES RETAIL SALES
18 THROUGH ANY PHYSICAL OR ELECTRONIC MARKETPLACE THAT IS OPERATED BY A
19 MARKETPLACE FACILITATOR.

20 ~~8.~~ 11. "Person" or "company" includes an individual, firm,
21 partnership, joint venture, association, corporation, estate, ~~or~~ trust,
22 MARKETPLACE FACILITATOR OR REMOTE SELLER, this state, any county, city,
23 town, district, other than a school district, or other political
24 subdivision and any other group or combination acting as a unit, and the
25 plural as well as the singular number.

26 ~~9.~~ 12. "Qualifying community health center":

27 (a) Means an entity that is recognized as nonprofit under section
28 501(c)(3) of the United States internal revenue code, that is a
29 community-based, primary care clinic that has a community-based board of
30 directors and that is either:

31 (i) The sole provider of primary care in the community.

32 (ii) A nonhospital affiliated clinic that is located in a federally
33 designated medically underserved area in this state.

34 (b) Includes clinics that are being constructed as qualifying
35 community health centers.

36 ~~10.~~ 13. "Qualifying health care organization" means an entity that
37 is recognized as nonprofit under section 501(c) of the United States
38 internal revenue code and that uses, saves or invests at least eighty ~~per~~
39 ~~cent~~ PERCENT of all monies that it receives from all sources each year
40 only for health and medical related educational and charitable services,
41 as documented by annual financial audits prepared by an independent
42 certified public accountant, performed according to generally accepted
43 auditing standards and filed annually with the department. Monies that
44 are used, saved or invested to lease, purchase or construct a facility for

1 health and medical related education and charitable services are included
2 in the eighty ~~per cent~~ PERCENT requirement.

3 ~~11.~~ 14. "Qualifying health sciences educational institution" means
4 an entity that is recognized as nonprofit under section 501(c) of the
5 United States internal revenue code and that solely provides graduate and
6 postgraduate education in the health sciences. For the purposes of this
7 paragraph, "health sciences" includes medicine, nursing, physician's
8 assistant studies, pharmacy, physical therapy, occupational therapy,
9 biomedical sciences, podiatry, clinical psychology, cardiovascular
10 science, nurse anesthesia, dentistry, optometry and veterinary medicine.

11 ~~12.~~ 15. "Qualifying hospital" means any of the following:

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

15 (b) A licensed nursing care institution or a licensed residential
16 care institution or a residential care facility operated in conjunction
17 with a licensed nursing care institution or a licensed kidney dialysis
18 center, ~~which~~ THAT provides medical services, nursing services or health
19 related services and THAT is not used or held for profit.

20 (c) A hospital, nursing care institution or residential care
21 institution ~~which~~ THAT is operated by the federal government, this state
22 or a political subdivision of this state.

23 (d) A facility that is under construction and that on completion
24 will be a facility under subdivision (a), (b) or (c) of this paragraph.

25 16. "REMOTE SELLER" MEANS A PERSON THAT SELLS PRODUCTS FOR DELIVERY
26 INTO THIS STATE AND THAT DOES NOT HAVE A PHYSICAL PRESENCE OR OTHER LEGAL
27 REQUIREMENT TO OBTAIN A TRANSACTION PRIVILEGE TAX LICENSE IN THIS STATE
28 OTHER THAN BECAUSE THE PERSON'S BUSINESS EXCEEDS THE THRESHOLD PROVIDED IN
29 SECTION 42-5043.

30 ~~13.~~ 17. "Retailer" includes every person engaged in the business
31 classified under the retail classification pursuant to section 42-5061
32 and, when in the opinion of the department it is necessary for the
33 efficient administration of this article, includes dealers, distributors,
34 supervisors, employers and salesmen, representatives, peddlers or
35 canvassers as the agents of the dealers, distributors, supervisors or
36 employers under whom they operate or from whom they obtain the tangible
37 personal property sold by them, whether in making sales on their own
38 behalf or on behalf of the dealers, distributors, supervisors or
39 employers.

40 ~~14.~~ 18. "Sale" means any transfer of title or possession, or both,
41 exchange, barter, lease or rental, conditional or otherwise, in any manner
42 or by any means whatever, including consignment transactions and auctions
43 AND TRANSACTIONS FACILITATED BY A MARKETPLACE FACILITATOR ON BEHALF OF A
44 MARKETPLACE SELLER, of tangible personal property or other activities
45 taxable under this chapter, for a consideration, and includes:

1 (a) Any transaction by which the possession of property is
2 transferred but the seller retains the title as security for the payment
3 of the price.

4 (b) Fabricating tangible personal property for consumers who
5 furnish either directly or indirectly the materials used in the
6 fabrication work.

7 (c) Furnishing, preparing or serving for a consideration any
8 tangible personal property consumed on the premises of the person
9 furnishing, preparing or serving the tangible personal property.

10 ~~15:~~ 19. "Solar daylighting" means a device that is specifically
11 designed to capture and redirect the visible portion of the solar beam,
12 while controlling the infrared portion, for use in illuminating interior
13 building spaces in lieu of artificial lighting.

14 ~~16:~~ 20. "Solar energy device" means a system or series of
15 mechanisms THAT ARE designed primarily to provide heating, to provide
16 cooling, to produce electrical power, to produce mechanical power, to
17 provide solar daylighting or to provide any combination of the foregoing
18 by means of collecting and transferring solar generated energy into such
19 uses either by active or passive means, including wind generator systems
20 that produce electricity. Solar energy systems may also have the
21 capability of storing solar energy for future use. Passive systems shall
22 clearly be designed as a solar energy device, such as a trombe wall, and
23 not merely as a part of a normal structure, such as a window.

24 ~~17:~~ 21. "Tangible personal property" means personal property ~~which~~
25 THAT may be seen, weighed, measured, felt or touched or THAT is in any
26 other manner perceptible to the senses.

27 ~~19:~~ 22. "Taxpayer" means any person who is liable for any tax
28 ~~which is~~ imposed by this article.

29 ~~18:~~ 23. "Tax year" or "taxable year" means either the calendar
30 year or the taxpayer's fiscal year, if permission is obtained from the
31 department to use a fiscal year as the tax period instead of the calendar
32 year.

33 ~~20:~~ 24. "Wholesaler" or "jobber" means any person who sells
34 tangible personal property for resale and not for consumption by the
35 purchaser.

36 Sec. 5. Section 42-5005, Arizona Revised Statutes, is amended to
37 read:

38 42-5005. Transaction privilege tax and municipal privilege
39 tax licenses; fees; renewal; revocation;
40 violation; classification

41 A. Every person who receives gross proceeds of sales or gross
42 income on which a transaction privilege tax is imposed by this article and
43 who desires to engage or continue in business shall apply to the
44 department for an annual transaction privilege tax license accompanied by
45 a fee of ~~twelve dollars~~ \$12. A person shall not engage or continue in

1 business until the person has obtained a transaction privilege tax
2 license.

3 B. A person desiring to engage or continue in business within a
4 city or town that imposes a municipal privilege tax shall apply to the
5 department of revenue for an annual municipal privilege tax license
6 accompanied by a fee of up to ~~fifty dollars~~ \$50, as established by
7 ordinance of the city or town. The person shall submit the fee with each
8 new license application. The person may not engage or continue in
9 business until the person has obtained a municipal privilege tax license.
10 The department must collect, hold, pay and manage the fees in trust for
11 the city or town and may not use the monies for any other purposes. **THE**
12 **FEE IMPOSED BY THIS SUBSECTION DOES NOT APPLY TO A MARKETPLACE FACILITATOR**
13 **OR REMOTE SELLER THAT IS ONLY REQUIRED TO OBTAIN A TRANSACTION PRIVILEGE**
14 **TAX LICENSE PURSUANT TO SECTION 42-5043.**

15 C. A transaction privilege tax license is valid only for the
16 calendar year in which it is issued, but it may be renewed for the
17 following calendar year. There is no fee for the renewal of the
18 transaction privilege tax license. The transaction privilege tax license
19 must be renewed at the same time and in the manner as the municipal
20 privilege tax license renewal.

21 D. A municipal privilege tax license is valid only for the calendar
22 year in which it is issued, but it may be renewed for the following
23 calendar year by the payment of a license renewal fee of up to ~~fifty~~
24 ~~dollars~~ \$50. The renewal fee is due and payable on January 1 and is
25 considered delinquent if not received on or before the last business day
26 of January. The department must collect, hold, pay and manage the fees in
27 trust for the city or town and may not use the monies for any other
28 purposes. **THE RENEWAL FEE IMPOSED BY THIS SUBSECTION DOES NOT APPLY TO A**
29 **MARKETPLACE FACILITATOR OR REMOTE SELLER THAT IS ONLY REQUIRED TO OBTAIN A**
30 **TRANSACTION PRIVILEGE TAX LICENSE PURSUANT TO SECTION 42-5043.**

31 E. A licensee that remains in business after the municipal
32 privilege tax license has expired is subject to the payment of the license
33 renewal fee and the civil penalty prescribed in section 42-1125,
34 subsection R.

35 F. If the applicant is not in arrears in payment of any tax imposed
36 by this article, the department shall issue a license authorizing the
37 applicant to engage and continue in business on the condition that the
38 applicant complies with this article. The license number shall be
39 continuous.

40 G. The transaction privilege tax license and the municipal
41 privilege tax license are not transferable on a complete change of
42 ownership or change of location of the business. For the purposes of this
43 subsection:

1 1. "Location" means the business address appearing in the
2 application for the license and on the transaction privilege tax or
3 municipal privilege tax license.

4 2. "Ownership" means any right, title or interest in the business.

5 3. "Transferable" means the ability to convey or change the right
6 or privilege to engage or continue in business by virtue of the issuance
7 of the transaction privilege tax or municipal privilege tax license.

8 H. When the ownership or location of a business on which a
9 transaction privilege tax or municipal privilege tax is imposed has been
10 changed within the meaning of subsection G of this section, the licensee
11 shall surrender the license to the department. The license shall be
12 reissued to the new owners or for the new location on application by the
13 taxpayer and payment of the ~~twelve-dollar~~ \$12 fee for a transaction
14 privilege tax license and a fee of up to ~~fifty-dollars~~ \$50 per
15 jurisdiction for a municipal privilege tax license. The department must
16 collect, hold, pay and manage the fees in trust for the city or town and
17 may not use the monies for any other purposes.

18 I. A person who is engaged in or conducting a business in two or
19 more locations or under two or more business names shall procure a
20 transaction privilege tax license for each location or business name
21 regardless of whether all locations or business names are reported on a
22 consolidated return under a single transaction privilege tax license
23 number. This requirement shall not be construed as conflicting with
24 section 42-5020.

25 J. A person who is engaged in or conducting a business in two or
26 more locations or under two or more business names shall procure a
27 municipal privilege tax license for each location or business name
28 regardless of whether all locations or business names are reported on a
29 consolidated return.

30 K. A person who is engaged in or conducting business at two or more
31 locations or under two or more business names and who files a consolidated
32 return under a single transaction privilege tax license number as provided
33 by section 42-5020 is required to pay only a single municipal privilege
34 tax license renewal fee for each local jurisdiction pursuant to subsection
35 D of this section. A person who is engaged in or conducting business at
36 two or more locations or under two or more business names and who does not
37 file a consolidated return under a single license number is required to
38 pay a license renewal fee for each location or license in a local
39 jurisdiction.

40 L. For the purposes of this chapter and chapter 6 of this title:

41 1. Through December 31, 2018, an online lodging marketplace, as
42 defined in section 42-5076, may register with the department for a license
43 for the payment of taxes levied by this state and one or more counties,
44 cities, towns or special taxing districts, at the election of the online
45 lodging marketplace, for taxes due from an online lodging operator on any

1 online lodging transaction facilitated by the online lodging marketplace,
2 subject to sections 42-5076 and 42-6009.

3 2. Beginning from and after December 31, 2018, an online lodging
4 marketplace, as defined in section 42-5076, shall register with the
5 department for a license for the payment of taxes levied by this state and
6 one or more counties, cities, towns or special taxing districts for taxes
7 due from an online lodging operator on any online lodging transaction
8 facilitated by the online lodging marketplace, subject to sections 42-5076
9 and 42-6009.

10 M. For the purposes of this chapter and chapter 6 of this title, a
11 person who is licensed pursuant to title 32, chapter 20 and who files an
12 electronic consolidated tax return for individual real properties under
13 management on behalf of the property owners may be licensed with the
14 department for the payment of taxes levied by this state and by any
15 county, city or town with respect to those properties. There is no fee
16 for a license issued pursuant to this subsection.

17 N. If a person violates this article or any rule adopted under this
18 article, the department upon hearing may revoke any transaction privilege
19 tax or municipal privilege tax license issued to the person. The
20 department shall provide ten days' written notice of the hearing, stating
21 the time and place and requiring the person to appear and show cause why
22 the license or licenses should not be revoked. The department shall
23 provide written notice to the person of the revocation of the license.
24 The notices may be served personally or by mail pursuant to section
25 42-5037. After revocation, the department shall not issue a new license
26 to the person unless the person presents evidence satisfactory to the
27 department that the person will comply with this article and with the
28 rules adopted under this article. The department may prescribe the terms
29 under which a revoked license may be reissued.

30 O. The department may revoke any transaction privilege tax or
31 municipal privilege tax license issued to any person who fails for
32 thirteen consecutive months to make and file a return required by this
33 article on or before the due date or the due date as extended by the
34 department unless the failure is due to a reasonable cause and not due to
35 wilful neglect.

36 P. A person who violates any provision of this section is guilty of
37 a class 3 misdemeanor.

38 Sec. 6. Title 42, chapter 5, article 1, Arizona Revised Statutes,
39 is amended by adding sections 42-5042 and 42-5043, to read:

40 42-5042. Liability; marketplace facilitators; remote sellers;
41 refund claims; audits; definition

42 A. A MARKETPLACE FACILITATOR IS NOT LIABLE FOR FAILING TO PAY THE
43 CORRECT AMOUNT OF TRANSACTION PRIVILEGE TAX FOR A MARKETPLACE SELLER'S
44 SALES THROUGH THE MARKETPLACE FACILITATOR'S MARKETPLACE TO THE EXTENT THAT

1 THE MARKETPLACE FACILITATOR DEMONSTRATES ANY OF THE FOLLOWING TO THE
2 SATISFACTION OF THE DEPARTMENT:

3 1. THE FAILURE TO PAY THE CORRECT AMOUNT OF TAX WAS DUE TO
4 INCORRECT INFORMATION GIVEN TO THE MARKETPLACE FACILITATOR BY THE
5 MARKETPLACE SELLER, AND THE MARKETPLACE FACILITATOR AND THE MARKETPLACE
6 SELLER ARE NOT AFFILIATED PERSONS.

7 2. THE MARKETPLACE FACILITATOR AND THE MARKETPLACE SELLER ARE NOT
8 AFFILIATED PERSONS, AND THE FAILURE TO PAY THE CORRECT AMOUNT OF TAX WAS
9 DUE TO AN ERROR OTHER THAN AN ERROR IN SOURCING THE SALE UNDER SECTION
10 42-5040.

11 B. THE LIABILITY RELIEF PROVIDED IN SUBSECTION A, PARAGRAPH 2 OF
12 THIS SECTION MAY NOT EXCEED THE FOLLOWING:

13 1. FOR CALENDAR YEAR 2019, FIVE PERCENT OF THE TOTAL TAX DUE UNDER
14 THIS CHAPTER ON TAXABLE SALES FACILITATED BY THE MARKETPLACE FACILITATOR
15 ON BEHALF OF A MARKETPLACE SELLER AND SOURCED TO THIS STATE UNDER SECTION
16 42-5040 DURING THE SAME CALENDAR YEAR.

17 2. FOR CALENDAR YEAR 2020, THREE PERCENT OF THE TOTAL TAX DUE UNDER
18 THIS CHAPTER ON TAXABLE SALES FACILITATED BY THE MARKETPLACE FACILITATOR
19 ON BEHALF OF A MARKETPLACE SELLER AND SOURCED TO THIS STATE UNDER SECTION
20 42-5040 DURING THE SAME CALENDAR YEAR.

21 3. FOR CALENDAR YEAR 2021 AND EACH CALENDAR YEAR THEREAFTER, ZERO
22 PERCENT OF THE TOTAL TAX DUE UNDER THIS CHAPTER ON TAXABLE SALES
23 FACILITATED BY THE MARKETPLACE FACILITATOR ON BEHALF OF A MARKETPLACE
24 SELLER AND SOURCED TO THIS STATE UNDER SECTION 42-5040 DURING THE SAME
25 CALENDAR YEAR.

26 C. A REMOTE SELLER IS NOT LIABLE FOR FAILING TO PAY THE CORRECT
27 AMOUNT OF TRANSACTION PRIVILEGE TAX IF FAILURE TO PAY THE CORRECT AMOUNT
28 OF TAX WAS DUE TO AN ERROR OTHER THAN AN ERROR IN SOURCING THE SALE UNDER
29 SECTION 42-5040. THE LIABILITY RELIEF PROVIDED IN THIS SUBSECTION MAY NOT
30 EXCEED THE FOLLOWING:

31 1. FOR CALENDAR YEAR 2019, FIVE PERCENT OF THE TOTAL TAX DUE UNDER
32 THIS CHAPTER ON TAXABLE SALES SOURCED TO THIS STATE UNDER SECTION 42-5040
33 DURING THE SAME CALENDAR YEAR.

34 2. FOR CALENDAR YEAR 2020, THREE PERCENT OF THE TOTAL TAX DUE UNDER
35 THIS CHAPTER ON TAXABLE SALES SOURCED TO THIS STATE UNDER SECTION 42-5040
36 DURING THE SAME CALENDAR YEAR.

37 3. FOR CALENDAR YEAR 2021 AND EACH CALENDAR YEAR THEREAFTER, ZERO
38 PERCENT OF THE TOTAL TAX DUE UNDER THIS CHAPTER ON TAXABLE SALES SOURCED
39 TO THIS STATE UNDER SECTION 42-5040 DURING THE SAME CALENDAR YEAR.

40 D. THE DEPARTMENT MAY WAIVE PENALTIES AND INTEREST IF THE
41 MARKETPLACE FACILITATOR OR REMOTE SELLER SEEKS LIABILITY RELIEF, THE
42 DEPARTMENT RULES THAT REASONABLE CAUSE EXISTS AND THE MARKETPLACE
43 FACILITATOR PAID TAX ON SALES FACILITATED FOR A MARKETPLACE SELLER DURING
44 THE PERIOD FOR WHICH RELIEF IS SOUGHT OR THE REMOTE SELLER PAID TAX ON
45 SALES DURING THE PERIOD FOR WHICH RELIEF IS SOUGHT.

1 E. THE DEPARTMENT MAY DETERMINE THE MANNER IN WHICH A MARKETPLACE
2 FACILITATOR OR REMOTE SELLER MAY CLAIM THE LIABILITY RELIEF PROVIDED FOR
3 IN THIS SECTION.

4 F. REFUND CLAIMS RELATED TO AN OVERPAYMENT OF TRANSACTION PRIVILEGE
5 TAX COLLECTED BY A MARKETPLACE FACILITATOR SHALL BE FILED AS PRESCRIBED BY
6 SECTION 42-1118. IF A REFUND CLAIM IS DENIED, THE CLAIMANT MAY APPEAL THE
7 DENIAL PURSUANT TO CHAPTER 1, ARTICLE 6 OF THIS TITLE.

8 G. AN AUDIT OF A MARKETPLACE FACILITATOR MAY NOT AUTOMATICALLY
9 CAUSE AN AUDIT OF A MARKETPLACE SELLER.

10 H. FOR THE PURPOSES OF THIS SECTION, "AFFILIATED PERSON" MEANS A
11 PERSON THAT, WITH RESPECT TO ANOTHER PERSON, EITHER:

12 1. HAS AN OWNERSHIP INTEREST OF MORE THAN FIVE PERCENT, WHETHER
13 DIRECT OR INDIRECT, IN THAT OTHER PERSON.

14 2. IS RELATED TO THE OTHER PERSON BECAUSE A THIRD PERSON, OR A
15 GROUP OF THIRD PERSONS THAT ARE AFFILIATED PERSONS WITH RESPECT TO EACH
16 OTHER, HOLDS AN OWNERSHIP INTEREST OF MORE THAN FIVE PERCENT, WHETHER
17 DIRECT OR INDIRECT, IN THE RELATED PERSONS.

18 42-5043. Nexus; out-of-state businesses; threshold;
19 applicability; rulemaking; reporting; definition

20 A. NOTWITHSTANDING ANY OTHER LAW, ANY PERSON THAT CONDUCTS BUSINESS
21 IN AN ACTIVITY CLASSIFIED UNDER SECTION 42-5061 WITH PURCHASERS IN THIS
22 STATE IS ENGAGING OR CONTINUING IN BUSINESS IN THIS STATE, IS SUBJECT TO
23 THIS ARTICLE AND SHALL PAY THE TAXES LEVIED UNDER THIS ARTICLE, SECTION
24 42-5061 AND CHAPTER 6 OF THIS TITLE AND ANY DULY ENACTED SPECIAL DISTRICT
25 TRANSACTION PRIVILEGE TAXES IMPOSED UNDER TITLE 48 ON RETAIL SALES OF
26 TANGIBLE PERSONAL PROPERTY IF THE PERSON MEETS EITHER OF THE FOLLOWING
27 CRITERIA IN THE PREVIOUS OR CURRENT CALENDAR YEAR:

28 1. IF THE PERSON IS A REMOTE SELLER, THE GROSS PROCEEDS OF SALES OR
29 GROSS INCOME DERIVED FROM THE REMOTE SELLER'S BUSINESS WITH CUSTOMERS IN
30 THIS STATE PURSUANT TO SECTION 42-5061 THAT IS NOT FACILITATED BY A
31 MARKETPLACE FACILITATOR IS MORE THAN THE FOLLOWING:

32 (a) FOR CALENDAR YEAR 2019, \$200,000.

33 (b) FOR CALENDAR YEAR 2020, \$150,000.

34 (c) FOR CALENDAR YEAR 2021 AND FOR EACH CALENDAR YEAR THEREAFTER,
35 \$100,000.

36 2. IF THE PERSON IS A MARKETPLACE FACILITATOR, THE GROSS PROCEEDS
37 OF SALES OR GROSS INCOME DERIVED FROM THE MARKETPLACE FACILITATOR'S
38 BUSINESS ON ITS OWN BEHALF OR ON BEHALF OF AT LEAST ONE MARKETPLACE SELLER
39 WITH CUSTOMERS IN THIS STATE PURSUANT TO SECTION 42-5061 IS MORE THAN
40 \$100,000.

41 B. FOR THE PURPOSE OF DETERMINING WHETHER A PERSON MEETS ANY OF THE
42 CRITERIA PRESCRIBED IN SUBSECTION A OF THIS SECTION, ALL AFFILIATED
43 PERSONS SHALL BE AGGREGATED.

44 C. IF THE THRESHOLD PROVIDED IN SUBSECTION A OF THIS SECTION WAS
45 NOT MET IN THE PREVIOUS CALENDAR YEAR AND IS MET PARTWAY THROUGH THE

1 CURRENT CALENDAR YEAR, THE PERSON SHALL OBTAIN A TRANSACTION PRIVILEGE TAX
2 LICENSE FROM THE DEPARTMENT ONCE THE THRESHOLD IS MET AND BEGIN REMITTING
3 THE TAX ON THE FIRST DAY OF THE MONTH THAT STARTS AT LEAST THIRTY DAYS
4 AFTER THE THRESHOLD IS MET FOR THE REMAINING OF THE CURRENT YEAR AND THE
5 NEXT CALENDAR YEAR. IF THE PERSON DOES NOT MEET THE THRESHOLD IN THE NEXT
6 CALENDAR YEAR, THE PERSON IS NOT REQUIRED TO REMIT THE TRANSACTION
7 PRIVILEGE TAX FOR THE CALENDAR YEAR FOLLOWING THAT CALENDAR YEAR AND MAY
8 CANCEL THE PERSON'S TRANSACTION PRIVILEGE TAX LICENSE. IF THE THRESHOLD
9 IS MET IN A SUBSEQUENT CALENDAR YEAR, THE PERSON SHALL REMIT THE
10 TRANSACTION PRIVILEGE TAX PURSUANT TO THIS SECTION.

11 D. THE DEPARTMENT MAY ADOPT RULES PURSUANT TO TITLE 41, CHAPTER 6
12 TO CARRY OUT THIS SECTION.

13 E. A MARKETPLACE FACILITATOR SHALL REPORT THE TAX DUE UNDER THIS
14 SECTION FROM TRANSACTIONS FACILITATED ON BEHALF OF MARKETPLACE SELLERS. A
15 MARKETPLACE FACILITATOR MAY REPORT THE TAX DUE UNDER THIS SECTION WITH THE
16 TAX COLLECTED FROM TRANSACTIONS MADE DIRECTLY BY THE MARKETPLACE
17 FACILITATOR ON A COMBINED TAX RETURN OR ON A SEPARATE RETURN.

18 F. FOR THE PURPOSES OF THIS SECTION, "AFFILIATED PERSON" MEANS A
19 PERSON THAT, WITH RESPECT TO ANOTHER PERSON, EITHER:

20 1. HAS AN OWNERSHIP INTEREST OF MORE THAN FIVE PERCENT, WHETHER
21 DIRECT OR INDIRECT, IN THAT OTHER PERSON.

22 2. IS RELATED TO THE OTHER PERSON BECAUSE A THIRD PERSON, OR A
23 GROUP OF THIRD PERSONS THAT ARE AFFILIATED PERSONS WITH RESPECT TO EACH
24 OTHER, HOLDS AN OWNERSHIP INTEREST OF MORE THAN FIVE PERCENT, WHETHER
25 DIRECT OR INDIRECT, IN THE RELATED PERSONS.

26 Sec. 7. Section 42-5061, Arizona Revised Statutes, as amended by
27 Laws 2018, chapter 104, section 15 and chapter 249, section 1, is amended
28 to read:

29 42-5061. Retail classification; definitions

30 A. The retail classification is comprised of the business of
31 selling tangible personal property at retail. The tax base for the retail
32 classification is the gross proceeds of sales or gross income derived from
33 the business. The tax imposed on the retail classification does not apply
34 to the gross proceeds of sales or gross income from:

35 1. Professional or personal service occupations or businesses that
36 involve sales or transfers of tangible personal property only as
37 inconsequential elements.

38 2. Services rendered in addition to selling tangible personal
39 property at retail.

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

43 4. Sales of tangible personal property by any nonprofit
44 organization organized and operated exclusively for charitable purposes

1 and recognized by the United States internal revenue service under section
2 501(c)(3) of the internal revenue code.

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

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

8 7. The sale of stocks and bonds.

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

13 9. Prosthetic appliances as defined in section 23-501 and as
14 prescribed or recommended by a health professional who is licensed
15 pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.

16 10. Insulin, insulin syringes and glucose test strips.

17 11. Prescription eyeglasses or contact lenses.

18 12. Hearing aids as defined in section 36-1901.

19 13. Durable medical equipment that has a centers for medicare and
20 medicaid services common procedure code, is designated reimbursable by
21 medicare, is prescribed by a person who is licensed under title 32,
22 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is
23 primarily and customarily used to serve a medical purpose, is generally
24 not useful to a person in the absence of illness or injury and is
25 appropriate for use in the home.

26 14. Sales of motor vehicles to nonresidents of this state for use
27 outside this state if the motor vehicle dealer ships or delivers the motor
28 vehicle to a destination out of this state.

29 15. Food, as provided in and subject to the conditions of article 3
30 of this chapter and ~~section~~ SECTIONS 42-5074 AND 42-6017.

31 16. Items purchased with United States department of agriculture
32 coupons issued under the supplemental nutrition assistance program
33 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
34 7 United States Code sections 2011 through 2036b) by the United States
35 department of agriculture food and nutrition service or food instruments
36 issued under section 17 of the child nutrition act (P.L. 95-627; 92
37 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
38 section 1786).

39 17. Textbooks by any bookstore that are required by any state
40 university or community college.

41 18. Food and drink to a person that is engaged in a business that
42 is classified under the restaurant classification and that provides such
43 food and drink without monetary charge to its employees for their own
44 consumption on the premises during the employees' hours of employment.

1 19. Articles of food, drink or condiment and accessory tangible
2 personal property to a school district or charter school if such articles
3 and accessory tangible personal property are to be prepared and served to
4 persons for consumption on the premises of a public school within the
5 district or on the premises of the charter school during school hours.

6 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
7 article 1.

8 21. The sale of cash equivalents and the sale of precious metal
9 bullion and monetized bullion to the ultimate consumer, but the sale of
10 coins or other forms of money for manufacture into jewelry or works of art
11 is subject to the tax and the gross proceeds of sales or gross income
12 derived from the redemption of any cash equivalent by the holder as a
13 means of payment for goods or services that are taxable under this article
14 is subject to the tax. For the purposes of this paragraph:

15 (a) "Cash equivalents" means items or intangibles, whether or not
16 negotiable, that are sold to one or more persons, through which a value
17 denominated in money is purchased in advance and may be redeemed in full
18 or in part for tangible personal property, intangibles or services. Cash
19 equivalents include gift cards, stored value cards, gift certificates,
20 vouchers, traveler's checks, money orders or other instruments, orders or
21 electronic mechanisms, such as an electronic code, personal identification
22 number or digital payment mechanism, or any other prepaid intangible right
23 to acquire tangible personal property, intangibles or services in the
24 future, whether from the seller of the cash equivalent or from another
25 person. Cash equivalents do not include either of the following:

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

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

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

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

37 22. Motor vehicle fuel and use fuel that are subject to a tax
38 imposed under title 28, chapter 16, article 1, sales of use fuel to a
39 holder of a valid single trip use fuel tax permit issued under section
40 28-5739, sales of aviation fuel that are subject to the tax imposed under
41 section 28-8344 and sales of jet fuel that are subject to the tax imposed
42 under article 8 of this chapter.

1 23. Tangible personal property sold to a person engaged in the
2 business of leasing or renting such property under the personal property
3 rental classification if such property is to be leased or rented by such
4 person.

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

8 25. Tangible personal property sold to:

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

10 (b) A qualifying health care organization as defined in section
11 42-5001 if the tangible personal property is used by the organization
12 solely to provide health and medical related educational and charitable
13 services.

14 (c) A qualifying health care organization as defined in section
15 42-5001 if the organization is dedicated to providing educational,
16 therapeutic, rehabilitative and family medical education training for
17 blind and visually impaired children and children with multiple
18 disabilities from the time of birth to age twenty-one.

19 (d) A qualifying community health center as defined in section
20 42-5001.

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

24 (f) For taxable periods beginning from and after June 30, 2001, a
25 nonprofit charitable organization that has qualified under section
26 501(c)(3) of the internal revenue code and that provides residential
27 apartment housing for low income persons over sixty-two years of age in a
28 facility that qualifies for a federal housing subsidy, if the tangible
29 personal property is used by the organization solely to provide
30 residential apartment housing for low income persons over sixty-two years
31 of age in a facility that qualifies for a federal housing subsidy.

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

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

38 26. Magazines or other periodicals or other publications by this
39 state to encourage tourist travel.

40 27. Tangible personal property sold to:

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

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

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

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

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

13 28. The sale of a motor vehicle to:

14 (a) A nonresident of this state if the purchaser's state of
15 residence does not allow a corresponding use tax exemption to the tax
16 imposed by article 1 of this chapter and if the nonresident has secured a
17 special ninety day nonresident registration permit for the vehicle as
18 prescribed by sections 28-2154 and 28-2154.01.

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

21 29. Tangible personal property purchased in this state by a
22 nonprofit charitable organization that has qualified under section
23 501(c)(3) of the United States internal revenue code and that engages in
24 and uses such property exclusively in programs for persons with mental or
25 physical disabilities if the programs are exclusively for training, job
26 placement, rehabilitation or testing.

27 30. Sales of tangible personal property by a nonprofit organization
28 that is exempt from taxation under section 501(c)(3), 501(c)(4) or
29 501(c)(6) of the internal revenue code if the organization is associated
30 with a major league baseball team or a national touring professional
31 golfing association and no part of the organization's net earnings inures
32 to the benefit of any private shareholder or individual. This paragraph
33 does not apply to an organization that is owned, managed or controlled, in
34 whole or in part, by a major league baseball team, or its owners,
35 officers, employees or agents, or by a major league baseball association
36 or professional golfing association, or its owners, officers, employees or
37 agents, unless the organization conducted or operated exhibition events in
38 this state before January 1, 2018 that were exempt from taxation under
39 section 42-5073.

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

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

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

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

16 35. Sales of natural gas or liquefied petroleum gas used to propel
17 a motor vehicle.

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

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

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

1 39. Through December 31, 1994, personal property liquidation
2 transactions, conducted by a personal property liquidator. From and after
3 December 31, 1994, personal property liquidation transactions shall be
4 taxable under this section provided that nothing in this subsection shall
5 be construed to authorize the taxation of casual activities or
6 transactions under this chapter. For the purposes of this paragraph:

7 (a) "Personal property liquidation transaction" means a sale of
8 personal property made by a personal property liquidator acting solely on
9 behalf of the owner of the personal property sold at the dwelling of the
10 owner or on the death of any owner, on behalf of the surviving spouse, if
11 any, any devisee or heir or the personal representative of the estate of
12 the deceased, if one has been appointed.

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

15 40. Sales of food, drink and condiment for consumption within the
16 premises of any prison, jail or other institution under the jurisdiction
17 of the state department of corrections, the department of public safety,
18 the department of juvenile corrections or a county sheriff.

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

24 42. Sales of:

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

27 (b) Livestock and poultry feed, salts, vitamins and other additives
28 for livestock or poultry consumption that are sold to persons for use or
29 consumption by their own livestock or poultry, for use or consumption in
30 the businesses of farming, ranching and producing or feeding livestock,
31 poultry, or livestock or poultry products or for use or consumption in
32 noncommercial boarding of livestock. For the purposes of this paragraph,
33 "poultry" includes ratites.

34 43. Sales of implants used as growth promotants and injectable
35 medicines, not already exempt under paragraph 8 of this subsection, for
36 livestock or poultry owned by or in possession of persons who are engaged
37 in producing livestock, poultry, or livestock or poultry products or who
38 are engaged in feeding livestock or poultry commercially. For the
39 purposes of this paragraph, "poultry" includes ratites.

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

44 45. Tangible personal property sold to a person engaged in business
45 and subject to tax under the transient lodging classification if the

1 tangible personal property is a personal hygiene item or articles used by
2 human beings for food, drink or condiment, except alcoholic beverages,
3 that are furnished without additional charge to and intended to be
4 consumed by the transient during the transient's occupancy.

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

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

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

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

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

22 49. Sales of alternative fuel vehicles if the vehicle was
23 manufactured as a diesel fuel vehicle and converted to operate on
24 alternative fuel and equipment that is installed in a conventional diesel
25 fuel motor vehicle to convert the vehicle to operate on an alternative
26 fuel, as defined in section 1-215.

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

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

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

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

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

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

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

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

12 56. Sales or other transfers of renewable energy credits or any
13 other unit created to track energy derived from renewable energy
14 resources. For the purposes of this paragraph, "renewable energy credit"
15 means a unit created administratively by the corporation commission or
16 governing body of a public power utility to track kilowatt hours of
17 electricity derived from a renewable energy resource or the kilowatt hour
18 equivalent of conventional energy resources displaced by distributed
19 renewable energy resources.

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

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

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

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

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

44 (c) "Indian tribe" means any organized nation, tribe, band or
45 community that is recognized as an Indian tribe by the United States

1 department of the interior and includes any entity formed under the laws
2 of the Indian tribe.

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

7 61. SALES OF TANGIBLE PERSONAL PROPERTY BY A MARKETPLACE SELLER
8 THAT ARE FACILITATED BY A MARKETPLACE FACILITATOR IN WHICH THE MARKETPLACE
9 FACILITATOR HAS REMITTED OR WILL REMIT THE APPLICABLE TAX TO THE
10 DEPARTMENT PURSUANT TO SECTION 42-5014.

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

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

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

28 3. Tangible personal property sold to persons engaged in business
29 classified under the telecommunications classification, including a person
30 representing or working on behalf of such a person in a manner described
31 in section 42-5075, subsection 0, and consisting of central office
32 switching equipment, switchboards, private branch exchange equipment,
33 microwave radio equipment and carrier equipment including optical fiber,
34 coaxial cable and other transmission media that are components of carrier
35 systems.

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

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

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

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

7 (a) A person:

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

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

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

21 (iv) Operating an aircraft to transport persons in any manner for
22 compensation or hire, or for use in a fractional ownership program that
23 meets the requirements of federal aviation administration regulations (14
24 Code of Federal Regulations part 91, subpart K), including as an air
25 carrier, a foreign air carrier or a commercial operator or under a
26 restricted category, within the meaning of 14 Code of Federal Regulations,
27 regardless of whether the operation or aircraft is regulated or certified
28 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
29 of Federal Regulations.

30 (v) That will lease or otherwise transfer operational control,
31 within the meaning of federal aviation administration operations
32 specification A008, or its successor, of the aircraft, instruments or
33 accessories to one or more persons described in item (i), (ii), (iii) or
34 (iv) of this subdivision, subject to section 42-5009, subsection Q.

35 (b) Any foreign government.

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

1 8. Machinery, tools, equipment and related supplies used or
2 consumed directly in repairing, remodeling or maintaining aircraft,
3 aircraft engines or aircraft component parts by or on behalf of a
4 certificated or licensed carrier of persons or property.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11 19. Machinery and equipment that are sold to a person engaged in
12 the commercial production of livestock, livestock products or
13 agricultural, horticultural, viticultural or floricultural crops or
14 products in this state, including a person representing or working on
15 behalf of such a person in a manner described in section 42-5075,
16 subsection 0, if the machinery and equipment are used directly and
17 primarily to prevent, monitor, control or reduce air, water or land
18 pollution.

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

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

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

31 (c) Any machinery or equipment purchased after the television
32 station has ceased analog broadcasting, or purchased after November 1,
33 2009, whichever occurs first.

34 21. Qualifying equipment that is purchased from and after June 30,
35 2004 through June 30, 2024 by a qualified business under section 41-1516
36 for harvesting or processing qualifying forest products removed from
37 qualifying projects as defined in section 41-1516. To qualify for this
38 deduction, the qualified business at the time of purchase must present its
39 certification approved by the department.

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

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

- 1 2. Janitorial equipment and hand tools.
- 2 3. Office equipment, furniture and supplies.
- 3 4. Tangible personal property used in selling or distributing
- 4 activities, other than the telecommunications transmissions described in
- 5 subsection B, paragraph 15 of this section.
- 6 5. Motor vehicles required to be licensed by this state, except
- 7 buses or other urban mass transit vehicles specifically exempted pursuant
- 8 to subsection B, paragraph 11 of this section, without regard to the use
- 9 of such motor vehicles.
- 10 6. Shops, buildings, docks, depots and all other materials of
- 11 whatever kind or character not specifically included as exempt.
- 12 7. Motors and pumps used in drip irrigation systems.
- 13 8. Machinery and equipment or other tangible personal property used
- 14 by a contractor in the performance of a contract.
- 15 D. In addition to the deductions from the tax base prescribed by
- 16 subsection A of this section, there shall be deducted from the tax base
- 17 the gross proceeds of sales or gross income derived from sales of
- 18 machinery, equipment, materials and other tangible personal property used
- 19 directly and predominantly to construct a qualified environmental
- 20 technology manufacturing, producing or processing facility as described in
- 21 section 41-1514.02. This subsection applies for ten full consecutive
- 22 calendar or fiscal years after the start of initial construction.
- 23 E. In computing the tax base, gross proceeds of sales or gross
- 24 income from retail sales of heavy trucks and trailers does not include any
- 25 amount attributable to federal excise taxes imposed by 26 United States
- 26 Code section 4051.
- 27 F. If a person is engaged in an occupation or business to which
- 28 subsection A of this section applies, the person's books shall be kept so
- 29 as to show separately the gross proceeds of sales of tangible personal
- 30 property and the gross income from sales of services, and if not so kept
- 31 the tax shall be imposed on the total of the person's gross proceeds of
- 32 sales of tangible personal property and gross income from services.
- 33 G. If a person is engaged in the business of selling tangible
- 34 personal property at both wholesale and retail, the tax under this section
- 35 applies only to the gross proceeds of the sales made other than at
- 36 wholesale if the person's books are kept so as to show separately the
- 37 gross proceeds of sales of each class, and if the books are not so kept,
- 38 the tax under this section applies to the gross proceeds of every sale so
- 39 made.
- 40 H. A person who engages in manufacturing, baling, crating, boxing,
- 41 barreling, canning, bottling, sacking, preserving, processing or otherwise
- 42 preparing for sale or commercial use any livestock, agricultural or
- 43 horticultural product or any other product, article, substance or
- 44 commodity and who sells the product of such business at retail in this

1 state is deemed, as to such sales, to be engaged in business classified
2 under the retail classification. This subsection does not apply to:

3 1. Agricultural producers who are owners, proprietors or tenants of
4 agricultural lands, orchards, farms or gardens where agricultural products
5 are grown, raised or prepared for market and who are marketing their own
6 agricultural products.

7 2. Businesses classified under the:

8 (a) Transporting classification.

9 (b) Utilities classification.

10 (c) Telecommunications classification.

11 (d) Pipeline classification.

12 (e) Private car line classification.

13 (f) Publication classification.

14 (g) Job printing classification.

15 (h) Prime contracting classification.

16 (i) Restaurant classification.

17 I. The gross proceeds of sales or gross income derived from the
18 following shall be deducted from the tax base for the retail
19 classification:

20 1. Sales made directly to the United States government or its
21 departments or agencies by a manufacturer, modifier, assembler or
22 repairer.

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

27 3. Overhead materials or other tangible personal property that is
28 used in performing a contract between the United States government and a
29 manufacturer, modifier, assembler or repairer, including property used in
30 performing a subcontract with a government contractor who is a
31 manufacturer, modifier, assembler or repairer, to which title passes to
32 the government under the terms of the contract or subcontract.

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

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

42 K. The department shall require every person claiming a deduction
43 provided by subsection I or J of this section to file on forms prescribed
44 by the department at such times as the department directs a sworn

1 statement disclosing the name of the purchaser and the exact amount of
2 sales on which the exclusion or deduction is claimed.

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

5 1. A manufacturer's cash rebate on the sales price of a motor
6 vehicle if the buyer assigns the buyer's right in the rebate to the
7 retailer.

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

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

14 N. In computing the tax base in the case of the sale or transfer of
15 wireless telecommunications equipment as an inducement to a customer to
16 enter into or continue a contract for telecommunications services that are
17 taxable under section 42-5064, gross proceeds of sales or gross income
18 does not include any sales commissions or other compensation received by
19 the retailer as a result of the customer entering into or continuing a
20 contract for the telecommunications services.

21 O. For the purposes of this section, a sale of wireless
22 telecommunications equipment to a person who holds the equipment for sale
23 or transfer to a customer as an inducement to enter into or continue a
24 contract for telecommunications services that are taxable under section
25 42-5064 is considered to be a sale for resale in the regular course of
26 business.

27 P. Retail sales of prepaid calling cards or prepaid authorization
28 numbers for telecommunications services, including sales of
29 reauthorization of a prepaid card or authorization number, are subject to
30 tax under this section.

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

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

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

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

43 1. The transfer of title or possession of the coal is for the
44 purpose of refining the coal.

1 2. The title or possession of the coal is transferred back to the
2 owner or operator of the power plant after completion of the coal refining
3 process. For the purposes of this paragraph, "coal refining process"
4 means the application of a coal additive system that aids in the reduction
5 of power plant emissions during the combustion of coal and the treatment
6 of flue gas.

7 S. If a seller is entitled to a deduction pursuant to subsection B,
8 paragraph 15, subdivision (b) of this section, the department may require
9 the purchaser to establish that the requirements of subsection B,
10 paragraph 15, subdivision (b) of this section have been satisfied. If the
11 purchaser cannot establish that the requirements of subsection B,
12 paragraph 15, subdivision (b) of this section have been satisfied, the
13 purchaser is liable in an amount equal to any tax, penalty and interest
14 that the seller would have been required to pay under article 1 of this
15 chapter if the seller had not made a deduction pursuant to subsection B,
16 paragraph 15, subdivision (b) of this section. Payment of the amount
17 under this subsection exempts the purchaser from liability for any tax
18 imposed under article 4 of this chapter and related to the tangible
19 personal property purchased. The amount shall be treated as transaction
20 privilege tax to the purchaser and as tax revenues collected from the
21 seller to designate the distribution base pursuant to section 42-5029.

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

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

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

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

1 V. For the purposes of this section:

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

5 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

31 4. "Overhead materials" means tangible personal property, the gross
32 proceeds of sales or gross income derived from that would otherwise be
33 included in the retail classification, and that are used or consumed in
34 the performance of a contract, the cost of which is charged to an overhead
35 expense account and allocated to various contracts based on generally
36 accepted accounting principles and consistent with government contract
37 accounting standards.

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

40 6. "Subcontract" means an agreement between a contractor and any
41 person who is not an employee of the contractor for furnishing of supplies
42 or services that, in whole or in part, are necessary to the performance of
43 one or more government contracts, or under which any portion of the
44 contractor's obligation under one or more government contracts is
45 performed, undertaken or assumed and that includes provisions causing

1 title to overhead materials or other tangible personal property used in
2 the performance of the subcontract to pass to the government or that
3 includes provisions incorporating such title passing clauses in a
4 government contract into the subcontract.

5 Sec. 8. Section 42-5061, Arizona Revised Statutes, as amended by
6 Laws 2018, chapter 104, section 15, chapter 249, section 1 and chapter
7 263, section 1, is amended to read:

8 42-5061. Retail classification; definitions

9 A. The retail classification is comprised of the business of
10 selling tangible personal property at retail. The tax base for the retail
11 classification is the gross proceeds of sales or gross income derived from
12 the business. The tax imposed on the retail classification does not apply
13 to the gross proceeds of sales or gross income from:

14 1. Professional or personal service occupations or businesses that
15 involve sales or transfers of tangible personal property only as
16 inconsequential elements.

17 2. Services rendered in addition to selling tangible personal
18 property at retail.

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

22 4. Sales of tangible personal property by any nonprofit
23 organization organized and operated exclusively for charitable purposes
24 and recognized by the United States internal revenue service under section
25 501(c)(3) of the internal revenue code.

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

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

31 7. The sale of stocks and bonds.

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

36 9. Prosthetic appliances as defined in section 23-501 and as
37 prescribed or recommended by a health professional who is licensed
38 pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.

39 10. Insulin, insulin syringes and glucose test strips.

40 11. Prescription eyeglasses or contact lenses.

41 12. Hearing aids as defined in section 36-1901.

42 13. Durable medical equipment that has a centers for medicare and
43 medicaid services common procedure code, is designated reimbursable by
44 medicare, is prescribed by a person who is licensed under title 32,
45 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is

1 primarily and customarily used to serve a medical purpose, is generally
2 not useful to a person in the absence of illness or injury and is
3 appropriate for use in the home.

4 14. Sales of motor vehicles to nonresidents of this state for use
5 outside this state if the motor vehicle dealer ships or delivers the motor
6 vehicle to a destination out of this state.

7 15. Food, as provided in and subject to the conditions of article 3
8 of this chapter and ~~section~~ SECTIONS 42-5074 AND 42-6017.

9 16. Items purchased with United States department of agriculture
10 coupons issued under the supplemental nutrition assistance program
11 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
12 7 United States Code sections 2011 through 2036b) by the United States
13 department of agriculture food and nutrition service or food instruments
14 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
15 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
16 section 1786).

17 17. Textbooks by any bookstore that are required by any state
18 university or community college.

19 18. Food and drink to a person that is engaged in a business that
20 is classified under the restaurant classification and that provides such
21 food and drink without monetary charge to its employees for their own
22 consumption on the premises during the employees' hours of employment.

23 19. Articles of food, drink or condiment and accessory tangible
24 personal property to a school district or charter school if such articles
25 and accessory tangible personal property are to be prepared and served to
26 persons for consumption on the premises of a public school within the
27 district or on the premises of the charter school during school hours.

28 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
29 article 1.

30 21. The sale of cash equivalents and the sale of precious metal
31 bullion and monetized bullion to the ultimate consumer, but the sale of
32 coins or other forms of money for manufacture into jewelry or works of art
33 is subject to the tax and the gross proceeds of sales or gross income
34 derived from the redemption of any cash equivalent by the holder as a
35 means of payment for goods or services that are taxable under this article
36 is subject to the tax. For the purposes of this paragraph:

37 (a) "Cash equivalents" means items or intangibles, whether or not
38 negotiable, that are sold to one or more persons, through which a value
39 denominated in money is purchased in advance and may be redeemed in full
40 or in part for tangible personal property, intangibles or services. Cash
41 equivalents include gift cards, stored value cards, gift certificates,
42 vouchers, traveler's checks, money orders or other instruments, orders or
43 electronic mechanisms, such as an electronic code, personal identification
44 number or digital payment mechanism, or any other prepaid intangible right
45 to acquire tangible personal property, intangibles or services in the

1 future, whether from the seller of the cash equivalent or from another
2 person. Cash equivalents do not include either of the following:

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

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

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

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

14 22. Motor vehicle fuel and use fuel that are subject to a tax
15 imposed under title 28, chapter 16, article 1, sales of use fuel to a
16 holder of a valid single trip use fuel tax permit issued under section
17 28-5739, sales of aviation fuel that are subject to the tax imposed under
18 section 28-8344 and sales of jet fuel that are subject to the tax imposed
19 under article 8 of this chapter.

20 23. Tangible personal property sold to a person engaged in the
21 business of leasing or renting such property under the personal property
22 rental classification if such property is to be leased or rented by such
23 person.

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

27 25. Tangible personal property sold to:

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

29 (b) A qualifying health care organization as defined in section
30 42-5001 if the tangible personal property is used by the organization
31 solely to provide health and medical related educational and charitable
32 services.

33 (c) A qualifying health care organization as defined in section
34 42-5001 if the organization is dedicated to providing educational,
35 therapeutic, rehabilitative and family medical education training for
36 blind and visually impaired children and children with multiple
37 disabilities from the time of birth to age twenty-one.

38 (d) A qualifying community health center as defined in section
39 42-5001.

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

43 (f) For taxable periods beginning from and after June 30, 2001, a
44 nonprofit charitable organization that has qualified under section
45 501(c)(3) of the internal revenue code and that provides residential

1 apartment housing for low income persons over sixty-two years of age in a
2 facility that qualifies for a federal housing subsidy, if the tangible
3 personal property is used by the organization solely to provide
4 residential apartment housing for low income persons over sixty-two years
5 of age in a facility that qualifies for a federal housing subsidy.

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

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

12 26. Magazines or other periodicals or other publications by this
13 state to encourage tourist travel.

14 27. Tangible personal property sold to:

15 (a) A person that is subject to tax under this article by reason of
16 being engaged in business classified under section 42-5075 or to a
17 subcontractor working under the control of a person engaged in business
18 classified under section 42-5075, if the property so sold is any of the
19 following:

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

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

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

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

32 28. The sale of a motor vehicle to:

33 (a) A nonresident of this state if the purchaser's state of
34 residence does not allow a corresponding use tax exemption to the tax
35 imposed by article 1 of this chapter and if the nonresident has secured a
36 special ninety day nonresident registration permit for the vehicle as
37 prescribed by sections 28-2154 and 28-2154.01.

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

40 29. Tangible personal property purchased in this state by a
41 nonprofit charitable organization that has qualified under section
42 501(c)(3) of the United States internal revenue code and that engages in
43 and uses such property exclusively in programs for persons with mental or
44 physical disabilities if the programs are exclusively for training, job
45 placement, rehabilitation or testing.

1 30. Sales of tangible personal property by a nonprofit organization
2 that is exempt from taxation under section 501(c)(3), 501(c)(4) or
3 501(c)(6) of the internal revenue code if the organization is associated
4 with a major league baseball team or a national touring professional
5 golfing association and no part of the organization's net earnings inures
6 to the benefit of any private shareholder or individual. This paragraph
7 does not apply to an organization that is owned, managed or controlled, in
8 whole or in part, by a major league baseball team, or its owners,
9 officers, employees or agents, or by a major league baseball association
10 or professional golfing association, or its owners, officers, employees or
11 agents, unless the organization conducted or operated exhibition events in
12 this state before January 1, 2018 that were exempt from taxation under
13 section 42-5073.

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

19 32. Sales of tangible personal property by a nonprofit organization
20 that is exempt from taxation under section 501(c)(3), 501(c)(4),
21 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the
22 organization sponsors or operates a rodeo featuring primarily farm and
23 ranch animals and no part of the organization's net earnings inures to the
24 benefit of any private shareholder or individual.

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

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

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

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

39 37. Petroleum, coke, natural gas, virgin fuel oil and electricity
40 sold to a qualified environmental technology manufacturer, producer or
41 processor as defined in section 41-1514.02 and directly used or consumed
42 in the generation or provision of on-site power or energy solely for
43 environmental technology manufacturing, producing or processing or
44 environmental protection. This paragraph shall apply for twenty full
45 consecutive calendar or fiscal years from the date the first paper

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

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

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

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

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

32 40. Sales of food, drink and condiment for consumption within the
33 premises of any prison, jail or other institution under the jurisdiction
34 of the state department of corrections, the department of public safety,
35 the department of juvenile corrections or a county sheriff.

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

41 42. Sales of:

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

44 (b) Livestock and poultry feed, salts, vitamins and other additives
45 for livestock or poultry consumption that are sold to persons for use or

1 consumption by their own livestock or poultry, for use or consumption in
2 the businesses of farming, ranching and producing or feeding livestock,
3 poultry, or livestock or poultry products or for use or consumption in
4 noncommercial boarding of livestock. For the purposes of this paragraph,
5 "poultry" includes ratites.

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

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

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

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

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

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

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

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

39 49. Sales of alternative fuel vehicles if the vehicle was
40 manufactured as a diesel fuel vehicle and converted to operate on
41 alternative fuel and equipment that is installed in a conventional diesel
42 fuel motor vehicle to convert the vehicle to operate on an alternative
43 fuel, as defined in section 1-215.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25 61. Sales of coal.

26 62. SALES OF TANGIBLE PERSONAL PROPERTY BY A MARKETPLACE SELLER
27 THAT ARE FACILITATED BY A MARKETPLACE FACILITATOR IN WHICH THE MARKETPLACE
28 FACILITATOR HAS REMITTED OR WILL REMIT THE APPLICABLE TAX TO THE
29 DEPARTMENT PURSUANT TO SECTION 42-5014.

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

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

41 2. Mining machinery, or equipment, used directly in the process of
42 extracting ores or minerals from the earth for commercial purposes,
43 including equipment required to prepare the materials for extraction and
44 handling, loading or transporting such extracted material to the surface.

1 "Mining" includes underground, surface and open pit operations for
2 extracting ores and minerals.

3 3. Tangible personal property sold to persons engaged in business
4 classified under the telecommunications classification, including a person
5 representing or working on behalf of such a person in a manner described
6 in section 42-5075, subsection 0, and consisting of central office
7 switching equipment, switchboards, private branch exchange equipment,
8 microwave radio equipment and carrier equipment including optical fiber,
9 coaxial cable and other transmission media that are components of carrier
10 systems.

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

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

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

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

26 (a) A person:

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

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

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

40 (iv) Operating an aircraft to transport persons in any manner for
41 compensation or hire, or for use in a fractional ownership program that
42 meets the requirements of federal aviation administration regulations
43 (14 Code of Federal Regulations part 91, subpart K), including as an air
44 carrier, a foreign air carrier or a commercial operator or under a
45 restricted category, within the meaning of 14 Code of Federal Regulations,

1 regardless of whether the operation or aircraft is regulated or certified
2 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
3 of Federal Regulations.

4 (v) That will lease or otherwise transfer operational control,
5 within the meaning of federal aviation administration operations
6 specification A008, or its successor, of the aircraft, instruments or
7 accessories to one or more persons described in item (i), (ii), (iii) or
8 (iv) of this subdivision, subject to section 42-5009, subsection Q.

9 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 (c) Any machinery or equipment purchased after the television
2 station has ceased analog broadcasting, or purchased after November 1,
3 2009, whichever occurs first.

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

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

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

16 2. Janitorial equipment and hand tools.

17 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

1 the tax shall be imposed on the total of the person's gross proceeds of
2 sales of tangible personal property and gross income from services.

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

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

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

21 2. Businesses classified under the:

22 (a) Transporting classification.

23 (b) Utilities classification.

24 (c) Telecommunications classification.

25 (d) Pipeline classification.

26 (e) Private car line classification.

27 (f) Publication classification.

28 (g) Job printing classification.

29 (h) Prime contracting classification.

30 (i) Restaurant classification.

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

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

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

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

1 manufacturer, modifier, assembler or repairer, to which title passes to
2 the government under the terms of the contract or subcontract.

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

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

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

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

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

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

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

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

35 O. For the purposes of this section, a sale of wireless
36 telecommunications equipment to a person who holds the equipment for sale
37 or transfer to a customer as an inducement to enter into or continue a
38 contract for telecommunications services that are taxable under section
39 42-5064 is considered to be a sale for resale in the regular course of
40 business.

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

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

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

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

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

24 S. For the purposes of section 42-5032.01, the department shall
25 separately account for revenues collected under the retail classification
26 from businesses selling tangible personal property at retail:

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

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

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

1 U. For the purposes of this section:

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

5 2. "Aircraft" includes:

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

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

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

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

21 V. For the purposes of subsection I of this section:

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

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

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

31 4. "Overhead materials" means tangible personal property, the gross
32 proceeds of sales or gross income derived from that would otherwise be
33 included in the retail classification, and that are used or consumed in
34 the performance of a contract, the cost of which is charged to an overhead
35 expense account and allocated to various contracts based on generally
36 accepted accounting principles and consistent with government contract
37 accounting standards.

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

40 6. "Subcontract" means an agreement between a contractor and any
41 person who is not an employee of the contractor for furnishing of supplies
42 or services that, in whole or in part, are necessary to the performance of
43 one or more government contracts, or under which any portion of the
44 contractor's obligation under one or more government contracts is
45 performed, undertaken or assumed and that includes provisions causing

1 title to overhead materials or other tangible personal property used in
2 the performance of the subcontract to pass to the government or that
3 includes provisions incorporating such title passing clauses in a
4 government contract into the subcontract.

5 Sec. 9. Section 42-5159, Arizona Revised Statutes, is amended to
6 read:

7 42-5159. Exemptions

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

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

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

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

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

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

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

41 7. Purchases of implants used as growth promotants and injectable
42 medicines, not already exempt under paragraph 16 of this subsection, for
43 livestock and poultry owned by, or in possession of, persons who are
44 engaged in producing livestock, poultry, or livestock or poultry products,

1 or who are engaged in feeding livestock or poultry commercially. For the
2 purposes of this paragraph, "poultry" includes ratites.

3 8. Purchases of:

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

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

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

14 10. Tangible personal property not exceeding ~~two hundred dollars~~
15 \$200 in any one month purchased by an individual at retail outside the
16 continental limits of the United States for the individual's own personal
17 use and enjoyment.

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

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

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

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

28 13. Tangible personal property purchased by:

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

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

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

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

43 (e) A qualifying health care organization as defined in section
44 42-5001 if the organization is dedicated to providing educational,
45 therapeutic, rehabilitative and family medical education training for

1 blind and visually impaired children and children with multiple
2 disabilities from the time of birth to age twenty-one.

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

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

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

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

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

19 (h) A person that is not subject to tax under section 42-5075 and
20 that has been provided a copy of a certificate described in section
21 42-5009, subsection L, if the property purchased is incorporated or
22 fabricated by the person into the real property, structure, project,
23 development or improvement described in the certificate.

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

28 (j) A qualifying community health center as defined in section
29 42-5001.

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

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

38 (m) For taxable periods beginning from and after June 30, 2001, a
39 nonprofit charitable organization that has qualified under section
40 501(c)(3) of the internal revenue code and that provides residential
41 apartment housing for low income persons over sixty-two years of age in a
42 facility that qualifies for a federal housing subsidy, if the tangible
43 personal property is used by the organization solely to provide
44 residential apartment housing for low income persons over sixty-two years
45 of age in a facility that qualifies for a federal housing subsidy.

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

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

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

13 15. Tangible personal property sold by:

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

17 (b) A nonprofit organization that is exempt from taxation under
18 section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if
19 the organization is associated with a major league baseball team or a
20 national touring professional golfing association and no part of the
21 organization's net earnings inures to the benefit of any private
22 shareholder or individual. This subdivision does not apply to an
23 organization that is owned, managed or controlled, in whole or in part, by
24 a major league baseball team, or its owners, officers, employees or
25 agents, or by a major league baseball association or professional golfing
26 association, or its owners, officers, employees or agents, unless the
27 organization conducted or operated exhibition events in this state before
28 January 1, 2018 that were exempt from transaction privilege tax under
29 section 42-5073.

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

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

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

44 18. Prescription eyeglasses and contact lenses.

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

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

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

9 22. Food, as provided in and subject to the conditions of article 3
10 of this chapter and ~~section~~ SECTIONS 42-5074 AND 42-6017.

11 23. Items purchased with United States department of agriculture
12 coupons issued under the supplemental nutrition assistance program
13 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
14 7 United States Code sections 2011 through 2036b) by the United States
15 department of agriculture food and nutrition service or food instruments
16 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
17 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
18 section 1786).

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

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

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

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

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

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

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

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

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

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

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

9 (b) Public educational institutions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17 (ii) Prepaid calling cards for telecommunications services.

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

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

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

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

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

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

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

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

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

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

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

19 (a) A person:

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

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

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

33 (iv) Operating an aircraft to transport persons in any manner for
34 compensation or hire, or for use in a fractional ownership program that
35 meets the requirements of federal aviation administration regulations (14
36 Code of Federal Regulations part 91, subpart K), including as an air
37 carrier, a foreign air carrier or a commercial operator or under a
38 restricted category, within the meaning of 14 Code of Federal Regulations,
39 regardless of whether the operation or aircraft is regulated or certified
40 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
41 of Federal Regulations.

42 (v) That will lease or otherwise transfer operational control,
43 within the meaning of federal aviation administration operations
44 specification A008, or its successor, of the aircraft, instruments or

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

3 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 22. Machinery, equipment, materials and other tangible personal
2 property used directly and predominantly to construct a qualified
3 environmental technology manufacturing, producing or processing facility
4 as described in section 41-1514.02. This paragraph applies for ten full
5 consecutive calendar or fiscal years after the start of initial
6 construction.

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

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

13 2. Janitorial equipment and hand tools.

14 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

13 H. A CITY OR TOWN MAY EXEMPT PROCEEDS FROM SALES OF PAINTINGS,
14 SCULPTURES OR SIMILAR WORKS OF FINE ART IF SUCH WORKS OF FINE ART ARE SOLD
15 BY THE ORIGINAL ARTIST. FOR THE PURPOSES OF THIS SUBSECTION, FINE ART
16 DOES NOT INCLUDE AN ART CREATION SUCH AS JEWELRY, MACRAME, GLASSWORK,
17 POTTERY, WOODWORK, METALWORK, FURNITURE OR CLOTHING IF THE ART CREATION
18 HAS A DUAL PURPOSE, BOTH AESTHETIC AND UTILITARIAN, WHETHER SOLD BY THE
19 ARTIST OR BY ANOTHER PERSON.

20 ~~H.~~ I. For the purposes of subsection B of this section:

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

24 2. "Aircraft" includes:

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

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

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

34 ~~H.~~ J. For the purposes of subsection D of this section, "ancillary
35 services", "electric distribution service", "electric generation service",
36 "electric transmission service" and "other services" have the same
37 meanings prescribed in section 42-5063.

38 Sec. 10. Section 42-6002, Arizona Revised Statutes, is amended to
39 read:

40 42-6002. Administration; procedures for levy, collection and
41 enforcement applicable to cities and towns;
42 definition

43 A. Unless the context otherwise requires, chapter 1 and chapter 5,
44 article 1 of this title govern the administration of the municipal
45 privilege taxes levied by a city or town.

1 B. The procedures for levy, collection and enforcement of payment
2 of transaction privilege and affiliated excise taxes, including use tax,
3 severance tax, jet fuel excise and use tax, and rental occupancy tax,
4 levied by a city or town shall be in the same manner as authorized by
5 chapter 5 of this title. EXCEPT FOR BUSINESS ACTIVITIES CLASSIFIED UNDER
6 THE RETAIL CLASSIFICATION PURSUANT TO SECTION 42-5061, this subsection
7 does not preclude a city or town from levying a transaction privilege,
8 sales, use or other similar tax as a result of a person's business
9 activities as provided in this article and article 2 of this chapter.

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

12 1. All audits shall be conducted in accordance with standard audit
13 procedures defined in the department of revenue audit manual.

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

16 3. An auditor that is trained and authorized to conduct an audit
17 may not represent any taxpayer in any tax matter.

18 4. Except as provided in paragraph 5 of this subsection, the audit
19 of a taxpayer that has locations in two or more cities or towns shall be
20 conducted by the department.

21 5. All audits shall include all taxing jurisdictions in this state
22 regardless of which jurisdiction conducts the audit. A city or town may
23 conduct an audit of any taxpayer that is engaged in business in only one
24 city or town and any other taxpayer authorized by the department.

25 6. The department shall issue all audit assessments on behalf of
26 all taxing jurisdictions in a single notice to the taxpayer.

27 7. Appeals of audit assessments shall be directed to the
28 department.

29 8. Appeals of audit assessments shall be administered pursuant to
30 chapter 1, article 6 of this title.

31 9. The department shall notify all affected cities and towns before
32 entering into any compromise, closing, settlement or other agreement with
33 a person related to the tax levied and imposed by the cities and towns.

34 D. For the purposes of this section, "transaction privilege, sales,
35 use or other similar tax" means any tax imposed under the model city tax
36 code.

37 Sec. 11. Title 42, chapter 6, article 1, Arizona Revised Statutes,
38 is amended by adding section 42-6017, to read:

39 42-6017. Municipal taxation of businesses selling tangible
40 personal property at retail; state preemption;
41 exceptions; definitions

42 A. EXCEPT AS PROVIDED IN THIS SECTION, SECTION 42-5061 SUPERSEDES
43 ALL CITY OR TOWN ORDINANCES OR OTHER LOCAL LAWS INSOFAR AS THE ORDINANCES
44 OR LOCAL LAWS NOW OR HEREAFTER RELATE TO THE TAXATION OF BUSINESS
45 ACTIVITIES CLASSIFIED UNDER SECTION 42-5061.

1 B. THE MUNICIPAL TAX RATE FOR BUSINESSES SELLING TANGIBLE PERSONAL
2 PROPERTY AT RETAIL FOR MARKETPLACE FACILITATORS IS THE MUNICIPAL TAX RATE
3 THAT IS IN EFFECT IN THE CITY OR TOWN FOR BUSINESSES SELLING TANGIBLE
4 PERSONAL PROPERTY AT RETAIL ON SEPTEMBER 30, 2019, UNTIL THE CITY OR TOWN
5 CHANGES THE TAX RATE.

6 C. A CITY OR TOWN MAY:

7 1. NOTWITHSTANDING SECTION 42-5061, SUBSECTION A, PARAGRAPH 15,
8 LEVY A TRANSACTION PRIVILEGE TAX ON THE GROSS PROCEEDS OF SALES OR GROSS
9 INCOME DERIVED FROM THE BUSINESS OF SELLING FOOD AT RETAIL BY THE PERSONS
10 DESCRIBED IN SECTION 42-5102, SUBSECTION A, SUBJECT TO THE CONDITIONS OF
11 SECTIONS 42-5074, 42-5101 AND 42-6015.

12 2. NOTWITHSTANDING SECTION 42-5061, SUBSECTION A, PARAGRAPH 17,
13 LEVY A TRANSACTION PRIVILEGE TAX ON THE GROSS PROCEEDS OF SALES OR GROSS
14 INCOME DERIVED FROM A BOOKSTORE SELLING TEXTBOOKS THAT ARE REQUIRED BY ANY
15 STATE UNIVERSITY OR COMMUNITY COLLEGE.

16 3. NOTWITHSTANDING SECTION 42-5061, SUBSECTION A, PARAGRAPH 33,
17 PARAGRAPH 42, SUBDIVISION (b) AND PARAGRAPH 43 AND SUBSECTION B, PARAGRAPH
18 5, CONTINUE TO LEVY AN EXISTING TRANSACTION PRIVILEGE TAX THAT WAS LEVIED
19 ON OR BEFORE MAY 1, 2019 ON THE GROSS PROCEEDS OF SALES OR GROSS INCOME
20 DERIVED FROM THE SALES OF:

21 (a) PROPAGATIVE MATERIALS TO PERSONS WHO USE THOSE ITEMS TO
22 COMMERCIALY PRODUCE AGRICULTURAL, HORTICULTURAL, VITICULTURAL OR
23 FLORICULTURAL CROPS IN THIS STATE. THIS SUBDIVISION DOES NOT APPLY AND A
24 CITY OR TOWN MAY NOT CONTINUE TO LEVY A TRANSACTION PRIVILEGE TAX PURSUANT
25 TO THIS SUBDIVISION AS FOLLOWS:

26 (i) FOR A CITY OR TOWN WITH A POPULATION OF FIFTY THOUSAND PERSONS
27 OR LESS, FROM AND AFTER JUNE 30, 2021.

28 (ii) FOR A CITY OR TOWN WITH A POPULATION OF MORE THAN FIFTY
29 THOUSAND PERSONS, FROM AND AFTER DECEMBER 31, 2019.

30 (b) LIVESTOCK AND POULTRY FEED, SALTS, VITAMINS AND OTHER ADDITIVES
31 FOR LIVESTOCK OR POULTRY CONSUMPTION THAT ARE SOLD TO PERSONS FOR USE OR
32 CONSUMPTION BY THEIR OWN LIVESTOCK OR POULTRY, FOR USE OR CONSUMPTION IN
33 THE BUSINESSES OF FARMING, RANCHING AND PRODUCING OR FEEDING LIVESTOCK,
34 POULTRY, OR LIVESTOCK OR POULTRY PRODUCTS OR FOR USE OR CONSUMPTION IN
35 NONCOMMERCIAL BOARDING OF LIVESTOCK.

36 (c) IMPLANTS USED AS GROWTH PROMOTANTS AND INJECTABLE MEDICINES,
37 NOT ALREADY EXEMPT UNDER SECTION 42-5061, SUBSECTION A, PARAGRAPH 8, FOR
38 LIVESTOCK OR POULTRY OWNED BY OR IN POSSESSION OF PERSONS WHO ARE ENGAGED
39 IN PRODUCING LIVESTOCK, POULTRY, OR LIVESTOCK OR POULTRY PRODUCTS OR WHO
40 ARE ENGAGED IN FEEDING LIVESTOCK OR POULTRY COMMERCIALY. THIS SUBDIVISION
41 DOES NOT APPLY AND A CITY OR TOWN MAY NOT CONTINUE TO LEVY A TRANSACTION
42 PRIVILEGE TAX PURSUANT TO THIS SUBDIVISION AS FOLLOWS:

43 (i) FOR A CITY OR TOWN WITH A POPULATION OF FIFTY THOUSAND PERSONS
44 OR LESS, FROM AND AFTER JUNE 30, 2021.

1 (ii) FOR A CITY OR TOWN WITH A POPULATION OF MORE THAN FIFTY
2 THOUSAND PERSONS, FROM AND AFTER DECEMBER 31, 2019.

3 (d) NEAT ANIMALS, HORSES, ASSES, SHEEP, RATITES, SWINE OR GOATS
4 USED OR TO BE USED AS BREEDING OR PRODUCTION STOCK, INCLUDING SALES OF
5 BREEDINGS OR OWNERSHIP SHARES IN SUCH ANIMALS USED FOR BREEDING OR
6 PRODUCTION. THIS SUBDIVISION DOES NOT APPLY AND A CITY OR TOWN MAY NOT
7 CONTINUE TO LEVY A TRANSACTION PRIVILEGE TAX PURSUANT TO THIS SUBDIVISION
8 AS FOLLOWS:

9 (i) FOR A CITY OR TOWN WITH A POPULATION OF FIFTY THOUSAND PERSONS
10 OR LESS, FROM AND AFTER JUNE 30, 2021.

11 (ii) FOR A CITY OR TOWN WITH A POPULATION OF MORE THAN FIFTY
12 THOUSAND PERSONS, FROM AND AFTER DECEMBER 31, 2019.

13 4. LEVY A TRANSACTION PRIVILEGE TAX ON THE GROSS PROCEEDS OF SALES
14 OR GROSS INCOME DERIVED FROM THE SALE OF NONMETALLIFEROUS MINED MATERIALS
15 AT RETAIL.

16 5. NOTWITHSTANDING SECTION 42-5061, SUBSECTION A, PARAGRAPH 60,
17 LEVY A TRANSACTION PRIVILEGE TAX ON THE GROSS PROCEEDS OF SALES OR GROSS
18 INCOME DERIVED FROM THE SALE OF WORKS OF FINE ART, AS DEFINED IN SECTION
19 44-1771, AT AN ART AUCTION OR GALLERY IN THIS STATE TO NONRESIDENTS OF
20 THIS STATE FOR USE OUTSIDE THIS STATE IF THE VENDOR SHIPS OR DELIVERS THE
21 WORK OF FINE ART TO A DESTINATION OUTSIDE THIS STATE.

22 6. NOTWITHSTANDING SECTION 42-5061, SUBSECTION A, PARAGRAPH 28,
23 LEVY A TRANSACTION PRIVILEGE TAX ON THE GROSS PROCEEDS OF SALES OR GROSS
24 INCOME DERIVED FROM THE SALE OF A MOTOR VEHICLE TO:

25 (a) A NONRESIDENT OF THIS STATE IF THE PURCHASER'S STATE OF
26 RESIDENCE DOES NOT ALLOW A CORRESPONDING USE TAX EXEMPTION TO THE TAX
27 IMPOSED BY CHAPTER 5, ARTICLE 1 OF THIS TITLE AND IF THE NONRESIDENT HAS
28 SECURED A SPECIAL NINETY DAY NONRESIDENT REGISTRATION PERMIT FOR THE
29 VEHICLE AS PRESCRIBED BY SECTIONS 28-2154 AND 28-2154.01. THIS
30 SUBDIVISION DOES NOT APPLY IF THE PURCHASER TAKES POSSESSION OF THE
31 VEHICLE OUTSIDE OF THIS STATE.

32 (b) AN ENROLLED MEMBER OF AN INDIAN TRIBE WHO RESIDES ON THE INDIAN
33 RESERVATION ESTABLISHED FOR THAT TRIBE, EXCEPT IF POSSESSION OF THE
34 VEHICLE IS RECEIVED ON THE ENROLLED MEMBER'S INDIAN RESERVATION.

35 7. EXEMPT FROM TRANSACTION PRIVILEGE, SALES, USE OR OTHER SIMILAR
36 TAX THE SALE OF PAINTINGS, SCULPTURES OR SIMILAR WORKS OF FINE ART, IF
37 SUCH WORKS OF FINE ART ARE SOLD BY THE ORIGINAL ARTIST. FOR THE PURPOSES
38 OF THIS PARAGRAPH, FINE ART DOES NOT INCLUDE AN ART CREATION SUCH AS
39 JEWELRY, MACRAMÉ, GLASSWORK, POTTERY, WOODWORK, METALWORK, FURNITURE OR
40 CLOTHING IF THE ART CREATION HAS A DUAL PURPOSE, BOTH AESTHETIC AND
41 UTILITARIAN, WHETHER SOLD BY THE ARTIST OR BY ANOTHER PERSON.

- 1 D. FOR THE PURPOSES OF THIS SECTION:
2 1. "FOOD" HAS THE SAME MEANING PRESCRIBED BY RULE ADOPTED BY THE
3 DEPARTMENT PURSUANT TO SECTION 42-5106.
4 2. "MARKETPLACE FACILITATOR" HAS THE SAME MEANING PRESCRIBED IN
5 SECTION 42-5001.
6 3. "POULTRY" INCLUDES RATITES.
7 4. "PROPAGATIVE MATERIALS":
8 (a) INCLUDES SEEDS, SEEDLINGS, ROOTS, BULBS, LINERS, TRANSPLANTS,
9 CUTTINGS, SOIL AND PLANT ADDITIVES, AGRICULTURAL MINERALS, AUXILIARY SOIL
10 AND PLANT SUBSTANCES, MICRONUTRIENTS, FERTILIZERS, INSECTICIDES,
11 HERBICIDES, FUNGICIDES, SOIL FUMIGANTS, DESICCANTS, RODENTICIDES,
12 ADJUVANTS, PLANT NUTRIENTS AND PLANT GROWTH REGULATORS.
13 (b) EXCEPT FOR USE IN COMMERCIALY PRODUCING INDUSTRIAL HEMP AS
14 DEFINED IN SECTION 3-311, DOES NOT INCLUDE ANY PROPAGATIVE MATERIALS USED
15 IN PRODUCING ANY PART, INCLUDING SEEDS, OF ANY PLANT OF THE GENUS
16 CANNABIS.
17 5. "REMOTE SELLER" HAS THE SAME MEANING PRESCRIBED IN SECTION
18 42-5001.

19 Sec. 12. Section 43-105, Arizona Revised Statutes, is amended to
20 read:

21 43-105. Internal revenue code: definition: application

22 A. FOR THE PURPOSES OF COMPUTING INCOME TAX PURSUANT TO THIS TITLE,
23 FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2018, "INTERNAL
24 REVENUE CODE" MEANS THE UNITED STATES INTERNAL REVENUE CODE OF 1986, AS
25 AMENDED, IN EFFECT ON JANUARY 1, 2019, INCLUDING THOSE PROVISIONS THAT
26 BECAME EFFECTIVE DURING 2018 WITH THE SPECIFIC ADOPTION OF ALL RETROACTIVE
27 EFFECTIVE DATES, BUT EXCLUDING ANY CHANGES TO THE CODE ENACTED AFTER
28 JANUARY 1, 2019.

29 ~~A.~~ B. For the purposes of computing income tax pursuant to this
30 title, for taxable years beginning from and after December 31, 2017
31 THROUGH DECEMBER 31, 2018, "internal revenue code" means the United States
32 internal revenue code of 1986, as amended, in effect on January 1,
33 ~~2017~~ 2018, INCLUDING THOSE PROVISIONS THAT BECAME EFFECTIVE DURING 2017
34 WITH THE SPECIFIC ADOPTION OF ALL RETROACTIVE EFFECTIVE DATES, AND
35 INCLUDING THOSE PROVISIONS OF THE BIPARTISAN BUDGET ACT OF 2018
36 (P.L. 115-123) AND THE CONSOLIDATED APPROPRIATIONS ACT, 2018
37 (P.L. 115-141) THAT ARE RETROACTIVELY EFFECTIVE DURING TAXABLE YEARS
38 BEGINNING FROM AND AFTER DECEMBER 31, 2017 THROUGH DECEMBER 31, 2018.

39 ~~B.~~ C. For the purposes of computing income tax pursuant to this
40 title, for taxable years beginning from and after December 31, 2016
41 through December 31, 2017, "internal revenue code" means the United States
42 internal revenue code of 1986, as amended, in effect on January 1, 2017,
43 including those provisions that became effective during 2016 with the
44 specific adoption of all federal retroactive effective dates, and
45 including those provisions of the disaster tax relief and airport and

1 airway extension act of 2017 (P.L. 115-63), the tax cuts and jobs act
2 (P.L. 115-97), ~~and~~ the bipartisan budget act of 2018 (P.L. 115-123) **AND**
3 **THE CONSOLIDATED APPROPRIATIONS ACT, 2018 (P.L. 115-141)** that are
4 retroactively effective during taxable years beginning from and after
5 December 31, 2016 through December 31, 2017.

6 ~~E.~~ D. For the purposes of computing income tax pursuant to this
7 title, for taxable years beginning from and after December 31, 2015
8 through December 31, 2016, "internal revenue code" means the United States
9 internal revenue code of 1986, as amended, in effect on January 1, 2016,
10 including those provisions that became effective during 2015 with the
11 specific adoption of all federal retroactive effective dates, and
12 including those provisions of the United States appreciation for olympians
13 and paralympians act of 2016 (P.L. 114-239), ~~and~~ the tax cuts and jobs act
14 (P.L. 115-97) **AND THE CONSOLIDATED APPROPRIATIONS ACT, 2018 (P.L. 115-141)**
15 that are retroactively effective during taxable years beginning from and
16 after December 31, 2015 through December 31, 2016.

17 ~~D.~~ E. For the purposes of computing income tax pursuant to this
18 title, for taxable years beginning from and after December 31, 2014
19 through December 31, 2015, "internal revenue code" means the United States
20 internal revenue code of 1986, as amended, in effect on January 1, 2015,
21 including those provisions that became effective during 2014 with the
22 specific adoption of all federal retroactive effective dates, and
23 including those provisions of the slain officer family support act of 2015
24 (P.L. 114-7), the don't tax our fallen public safety heroes act
25 (P.L. 114-14), the surface transportation and veterans health care choice
26 improvement act of 2015 (P.L. 114-41), ~~and~~ the consolidated appropriations
27 act, 2016 (P.L. 114-113) **AND THE CONSOLIDATED APPROPRIATIONS ACT, 2018**
28 **(P.L. 115-141)** that are retroactively effective during taxable years
29 beginning from and after December 31, 2014 through December 31, 2015.

30 ~~E.~~ F. For the purposes of computing income tax pursuant to this
31 title, for taxable years beginning from and after December 31, 2013
32 through December 31, 2014, "internal revenue code" means the United States
33 internal revenue code of 1986, as amended, in effect on January 1, 2014,
34 including those provisions that became effective during 2013 with the
35 specific adoption of all federal retroactive effective dates, and
36 including those provisions of the Philippines charitable giving assistance
37 act (P.L. 113-92), the Gabriella Miller kids first research act
38 (P.L. 113-94), the cooperative and small employer charity pension
39 flexibility act (P.L. 113-97), the highway and transportation funding act
40 of 2014 (P.L. 113-159), the tribal general welfare exclusion act of 2014
41 (P.L. 113-168), the consolidated and further continuing appropriations
42 act, 2015 (P.L. 113-235), the 2014 airline bankruptcy payments rollover
43 act (P.L. 113-243), the tax increase prevention act of 2014
44 (P.L. 113-295), the slain officer family support act of 2015 (P.L. 114-7)
45 and the consolidated appropriations act, 2016 (P.L. 114-113) that are

1 retroactively effective during taxable years beginning from and after
2 December 31, 2013 through December 31, 2014.

3 ~~F.~~ G. For the purposes of computing income tax pursuant to this
4 title, for taxable years beginning from and after December 31, 2012
5 through December 31, 2013, "internal revenue code" means the United States
6 internal revenue code of 1986, as amended, in effect on January 3, 2013,
7 including those provisions that became effective during 2012 with the
8 specific adoption of all federal retroactive effective dates, and
9 including those provisions of the Philippines charitable giving assistance
10 act (P.L. 113-92), the highway and transportation funding act of 2014
11 (P.L. 113-159), the tribal general welfare exclusion act of 2014
12 (P.L. 113-168), the 2014 airline bankruptcy payments rollover act
13 (P.L. 113-243), the tax technical corrections act of 2014 (P.L. 113-295,
14 division A, title II) and the consolidated appropriations act, 2016
15 (P.L. 114-113) that are retroactively effective during taxable years
16 beginning from and after December 31, 2012 through December 31, 2013.

17 ~~G.~~ H. For the purposes of computing income tax pursuant to this
18 title, for taxable years beginning from and after December 31, 2011
19 through December 31, 2012, "internal revenue code" means the United States
20 internal revenue code of 1986, as amended, in effect on January 1, 2012,
21 including those provisions that became effective during 2011 with the
22 specific adoption of all federal retroactive effective dates, and
23 including those provisions of the FAA modernization and reform act of 2012
24 (P.L. 112-95), the moving ahead for progress in the 21st century act
25 (P.L. 112-141), the American taxpayer relief act of 2012 (P.L. 112-240),
26 the 2014 airline bankruptcy payments rollover act (P.L. 113-243), the
27 tribal general welfare exclusion act of 2014 (P.L. 113-168), the tax
28 technical corrections act of 2014 (P.L. 113-295, division A, title II) and
29 the consolidated appropriations act, 2016 (P.L. 114-113) that are
30 retroactively effective during taxable years beginning from and after
31 December 31, 2011 through December 31, 2012.

32 ~~H.~~ I. For the purposes of computing income tax pursuant to this
33 title, for taxable years beginning from and after December 31, 2010
34 through December 31, 2011, "internal revenue code" means the United States
35 internal revenue code of 1986, as amended, in effect on January 1, 2011,
36 including those provisions that became effective during 2010 with the
37 specific adoption of all federal retroactive effective dates, and
38 including those provisions of Public Law 112-40, the moving ahead for
39 progress in the 21st century act (P.L. 112-141), the American taxpayer
40 relief act of 2012 (P.L. 112-240), the tribal general welfare exclusion
41 act of 2014 (P.L. 113-168) and the tax technical corrections act of 2014
42 (P.L. 113-295, division A, title II) that are retroactively effective
43 during taxable years beginning from and after December 31, 2010 through
44 December 31, 2011.

1 ~~J.~~ J. For the purposes of computing income tax pursuant to this
2 title, for taxable years beginning from and after December 31, 2009
3 through December 31, 2010, "internal revenue code" means the United States
4 internal revenue code of 1986, as amended, in effect on January 1, 2010,
5 including those provisions that became effective during 2009 with the
6 specific adoption of all federal retroactive effective dates, and
7 including those provisions of the temporary extension act of 2010
8 (P.L. 111-144), the hiring incentives to restore employment act
9 (P.L. 111-147), the patient protection and affordable care act
10 (P.L. 111-148), the health care and education reconciliation act of 2010
11 (P.L. 111-152), the preservation of access to care for medicare
12 beneficiaries and pension relief act of 2010 (P.L. 111-192), the
13 Dodd-Frank Wall Street reform and consumer protection act (P.L. 111-203),
14 the small business jobs act of 2010 (P.L. 111-240), the claims resolution
15 act of 2010 (P.L. 111-291), the tax relief, unemployment insurance
16 reauthorization, and job creation act of 2010 (P.L. 111-312), the
17 regulated investment company modernization act of 2010 (P.L. 111-325) and
18 the tax technical corrections act of 2014 (P.L. 113-295, division A,
19 title II) that are retroactively effective during taxable years beginning
20 from and after December 31, 2009 through December 31, 2010.

21 ~~K.~~ K. For purposes of computing income tax pursuant to this title,
22 for taxable years beginning from and after December 31, 2008 through
23 December 31, 2009, "internal revenue code" means the United States
24 internal revenue code of 1986, as amended, in effect on January 1, 2009,
25 including those provisions that became effective during 2008 with the
26 specific adoption of all federal retroactive effective dates, and
27 including those provisions of the American recovery and reinvestment act
28 of 2009 (P.L. 111-5) except section 1211, the consumer assistance to
29 recycle and save act of 2009 (P.L. 111-32), the worker, homeownership, and
30 business assistance act of 2009 (P.L. 111-92) except section 13, the
31 hiring incentives to restore employment act (P.L. 111-147), the patient
32 protection and affordable care act (P.L. 111-148), the preservation of
33 access to care for medicare beneficiaries and pension relief act of 2010
34 (P.L. 111-192), the small business jobs act of 2010 (P.L. 111-240), the
35 tax relief, unemployment insurance reauthorization, and job creation act
36 of 2010 (P.L. 111-312) and the tax technical corrections act of 2014
37 (P.L. 113-295, division A, title II) that are retroactively effective
38 during taxable years beginning from and after December 31, 2008 through
39 December 31, 2009.

40 ~~K.~~ ~~K. For purposes of computing income tax pursuant to this title, for~~
41 ~~taxable years beginning from and after December 31, 2007 through~~
42 ~~December 31, 2008, "internal revenue code" means the United States~~
43 ~~internal revenue code of 1986, as amended, in effect on January 1, 2008,~~
44 ~~including those provisions that became effective during 2007 with the~~
45 ~~specific adoption of all federal retroactive effective dates and including~~

1 ~~those provisions of the economic stimulus act of 2008 (P.L. 110-185), the~~
2 ~~heroes earnings assistance and relief tax act of 2008 (P.L. 110-245), the~~
3 ~~heartland, habitat, harvest and horticulture act of 2008 (P.L. 110-246),~~
4 ~~the housing assistance tax act of 2008 (P.L. 110-289), the emergency~~
5 ~~economic stabilization act of 2008 (P.L. 110-343), the worker, retiree,~~
6 ~~and employer recovery act of 2008 (P.L. 110-458), the American recovery~~
7 ~~and reinvestment act of 2009 (P.L. 111-5) except section 1211, the worker,~~
8 ~~homeownership, and business assistance act of 2009 (P.L. 111-92) except~~
9 ~~section 13 and the tax technical corrections act of 2014 (P.L. 113-295,~~
10 ~~division A, title II) that are retroactively effective during taxable~~
11 ~~years beginning from and after December 31, 2007 through December 31,~~
12 ~~2008.~~

13 Sec. 13. Section 43-222, Arizona Revised Statutes, is amended to
14 read:

15 43-222. Income tax credit review schedule

16 The joint legislative income tax credit review committee shall
17 review the following income tax credits:

18 1. For years ending in 0 and 5, sections 43-1079.01, 43-1087,
19 43-1088, 43-1089.04, 43-1167.01 and 43-1175.

20 2. For years ending in 1 and 6, sections 43-1072.02, 43-1074.02,
21 43-1083, 43-1083.02, 43-1164.03 and 43-1183.

22 3. For years ending in 2 and 7, sections 43-1073, 43-1080, 43-1085,
23 43-1086, 43-1089, 43-1089.01, 43-1089.02, 43-1089.03, 43-1164, 43-1169 and
24 43-1181.

25 4. For years ending in 3 and 8, sections 43-1074.01, 43-1081,
26 43-1168, 43-1170 and 43-1178.

27 5. For years ending in 4 and 9, sections 43-1073.01, 43-1076,
28 43-1081.01, 43-1083.04, 43-1084, 43-1162, 43-1164.05, 43-1170.01 and
29 43-1184 and, beginning in 2019, sections 43-1083.03 and 43-1164.04.

30 Sec. 14. Section 43-323, Arizona Revised Statutes, is amended to
31 read:

32 43-323. Place and form of filing returns

33 A. All returns required by this title shall be in such a form as
34 the department may from time to time prescribe and shall be filed with the
35 department.

36 B. The department shall prescribe a short form return for
37 individual taxpayers who:

38 1. Are eligible and elect to pay tax based on the optional tax
39 tables pursuant to section 43-1012.

40 2. Elect to claim the optional standard deduction pursuant to
41 section 43-1041, SUBSECTION A, BUT NOT THE INCREASED AMOUNT FOR CHARITABLE
42 DEDUCTIONS UNDER SECTION 43-1041, SUBSECTION I.

43 3. Elect not to file for credits against income tax liability other
44 than those contained in sections 43-1072, 43-1072.01, 43-1072.02, ~~and~~
45 43-1073 AND 43-1073.01.

1 4. Are not required to add any income under section 43-1021 and do
2 not elect any subtractions under section 43-1022, except for the
3 exemptions allowed under section 43-1023.

4 C. The department may provide a simplified return form for
5 individual taxpayers who:

6 1. Are eligible and elect to pay tax based on the optional tax
7 tables pursuant to section 43-1012.

8 2. Are residents for the full taxable year.

9 3. File as single individuals or married couples filing joint
10 returns under section 43-309.

11 4. Are not sixty-five years of age or older or blind at the end of
12 the taxable year.

13 5. Claim no exemptions under section 43-1023 for the taxable year.

14 6. Elect to claim the optional standard deduction under section
15 43-1041, **SUBSECTION A, BUT NOT THE INCREASED AMOUNT FOR CHARITABLE**
16 **DEDUCTIONS UNDER SECTION 43-1041, SUBSECTION I.**

17 7. Are not required to add any income under section 43-1021 and do
18 not elect to claim any subtractions under section 43-1022 or file for any
19 credits under chapter 10, article 5 of this title, except the credits
20 provided by sections 43-1072.01, 43-1072.02 and 43-1073.

21 8. Do not elect to contribute a portion of any tax refund as
22 provided by any provision of chapter 6, article 1 of this title.
23 Notwithstanding any provision of chapter 6, article 1 of this title, a
24 simplified return form under this subsection shall not include any space
25 for the taxpayer to so contribute a portion of a refund.

26 D. The department shall prepare blank forms for the returns and
27 furnish them on request. Failure to receive or secure the form does not
28 relieve any taxpayer from making any return required.

29 E. An individual income tax preparer who prepares more than ten
30 original income tax returns that are timely filed during any taxable year
31 that begins from and after December 31, 2017 shall file electronically all
32 individual tax returns prepared by that tax preparer, for that taxable
33 year and each subsequent taxable year. An individual income tax preparer
34 may not charge a separate fee to the taxpayer for filing a return using
35 the department's electronic filing program. This subsection does not
36 apply if the taxpayer elects to have the return filed on paper or if the
37 return cannot be filed electronically for reasons outside of the tax
38 preparer's control.

39 F. Fiduciary returns, partnership returns, withholding returns and
40 corporate returns shall be filed electronically for taxable years
41 beginning from and after December 31, 2019, or when the department
42 establishes an electronic filing program, whichever is later. Any person
43 who is required to file electronically pursuant to this subsection may
44 apply to the director, on a form prescribed by the department, for an
45 annual waiver from the electronic filing requirement. The director may

1 grant the waiver, which may be renewed for one subsequent year, if any of
2 the following applies:

- 3 1. The taxpayer has no computer.
- 4 2. The taxpayer has no internet access.
- 5 3. Any other circumstance considered to be worthy by the director
6 exists.

7 G. A waiver is not required if the return cannot be electronically
8 filed for reasons beyond the taxpayer's control, including situations in
9 which the taxpayer was instructed by either the internal revenue service
10 or the department of revenue to file by paper.

11 Sec. 15. Section 43-945, Arizona Revised Statutes, is amended to
12 read:

13 43-945. Allocation of exemptions for blind persons and
14 persons over sixty-five years of age

15 In the case of a return made for a fractional part of the year, the
16 exemptions allowed under ~~sections~~ SECTION 43-1023 ~~and 43-1043~~ shall be
17 reduced respectively to ~~amounts which bear~~ AN AMOUNT THAT BEARS the same
18 ratio to the full exemptions provided as the number of months in the
19 period for which THE return is made bears to twelve months.

20 Sec. 16. Section 43-1001, Arizona Revised Statutes, is amended to
21 read:

22 43-1001. Definitions

23 In this chapter, unless the context otherwise requires:

- 24 1. "Arizona adjusted gross income" of a resident individual means
25 the individual's Arizona gross income subject to modifications specified
26 in sections 43-1021 and 43-1022.
- 27 2. "Arizona gross income" of a resident individual means the
28 individual's federal adjusted gross income for the taxable year, computed
29 pursuant to the internal revenue code.
- 30 3. "Dependent" has the same meaning prescribed by section 152 of
31 the internal revenue code.
- 32 4. "Federal adjusted gross income" of a resident individual means
33 the individual's adjusted gross income computed pursuant to the internal
34 revenue code.
- 35 5. "Head of household" has the same meaning prescribed by sections
36 2(b) and 2(c) of the internal revenue code. Head of household includes an
37 individual who meets the qualifications of a surviving spouse under
38 section 2(a) of the internal revenue code.
- 39 6. "Married person" means a married person on the last day of the
40 taxable year subject to the rules in section 43-1002.
- 41 7. "Net income" means taxable income.
- 42 8. "Person" means an individual.
- 43 9. "Single person" means any person who is not married or who was
44 legally separated on the last day of the person's taxable year.
- 45 10. "Spouse" means the wife or husband of the taxpayer.

1 11. "Taxable income" of a resident individual ~~shall be~~ MEANS Arizona
2 adjusted gross income less the ~~exemptions and~~ deductions allowed in
3 article 4 of this chapter.

4 12. "Taxpayer" means any person WHO IS subject to a tax imposed by
5 this chapter.

6 Sec. 17. Section 43-1011, Arizona Revised Statutes, is amended to
7 read:

8 43-1011. Taxes and tax rates

9 A. There shall be levied, collected and paid for each taxable year
10 on the entire taxable income of every resident of this state and on the
11 entire taxable income of every nonresident that is derived from sources
12 within this state taxes determined in the following manner:

13 1. For taxable years beginning from and after December 31, 1996
14 through December 31, 1997:

15 (a) In the case of a single person or a married person filing
16 separately:

<u>If taxable income is:</u>	<u>The tax is:</u>
17 \$0 - \$10,000	2.90% of taxable income
18 \$10,001 - \$25,000	\$290, plus 3.30% of the excess 19 over \$10,000
20 \$25,001 - \$50,000	\$785, plus 3.90% of the excess 21 over \$25,000
22 \$50,001 - \$150,000	\$1,760, plus 4.80% of the excess 23 over \$50,000
24 \$150,001 and over	\$6,560, plus 5.17% of the excess 25 over \$150,000

26 (b) In the case of a married couple filing a joint return or a
27 single person who is a head of a household:

<u>If taxable income is:</u>	<u>The tax is:</u>
28 \$0 - \$20,000	2.90% of taxable income
29 \$20,001 - \$50,000	\$580, plus 3.30% of the excess 30 over \$20,000
31 \$50,001 - \$100,000	\$1,570, plus 3.90% of the excess 32 over \$50,000
33 \$100,001 - \$300,000	\$3,520, plus 4.80% of the excess 34 over \$100,000
35 \$300,001 and over	\$13,120, plus 5.17% of the 36 excess over \$300,000

37 2. For taxable years beginning from and after December 31, 1997
38 through December 31, 1998:

39 (a) In the case of a single person or a married person filing
40 separately:

<u>If taxable income is:</u>	<u>The tax is:</u>
41 \$0 - \$10,000	2.88% of taxable income

1	\$10,001 - \$25,000	\$288, plus 3.24% of the excess
2		over \$10,000
3	\$25,001 - \$50,000	\$774, plus 3.82% of the excess
4		over \$25,000
5	\$50,001 - \$150,000	\$1,729, plus 4.74% of the excess
6		over \$50,000
7	\$150,001 and over	\$6,469, plus 5.10% of the excess
8		over \$150,000

9 (b) In the case of a married couple filing a joint return or a
10 single person who is a head of a household:

11	<u>If taxable income is:</u>	<u>The tax is:</u>
12	\$0 - \$20,000	2.88% of taxable income
13	\$20,001 - \$50,000	\$576, plus 3.24% of the excess
14		over \$20,000
15	\$50,001 - \$100,000	\$1,548, plus 3.82% of the excess
16		over \$50,000
17	\$100,001 - \$300,000	\$3,458, plus 4.74% of the excess
18		over \$100,000
19	\$300,001 and over	\$12,938, plus 5.10% of the
20		excess over \$300,000

21 3. For taxable years beginning from and after December 31, 1998
22 through December 31, 2005:

23 (a) In the case of a single person or a married person filing
24 separately:

25	<u>If taxable income is:</u>	<u>The tax is:</u>
26	\$0 - \$10,000	2.87% of taxable income
27	\$10,001 - \$25,000	\$287, plus 3.20% of the excess
28		over \$10,000
29	\$25,001 - \$50,000	\$767, plus 3.74% of the excess
30		over \$25,000
31	\$50,001 - \$150,000	\$1,702, plus 4.72% of the excess
32		over \$50,000
33	\$150,001 and over	\$6,422, plus 5.04% of the excess
34		over \$150,000

35 (b) In the case of a married couple filing a joint return or a
36 single person who is a head of a household:

37	<u>If taxable income is:</u>	<u>The tax is:</u>
38	\$0 - \$20,000	2.87% of taxable income
39	\$20,001 - \$50,000	\$574, plus 3.20% of the excess
40		over \$20,000
41	\$50,001 - \$100,000	\$1,534, plus 3.74% of the excess
42		over \$50,000
43	\$100,001 - \$300,000	\$3,404, plus 4.72% of the excess
44		over \$100,000

1 (b) In the case of a married couple filing a joint return or a
2 single person who is a head of a household:

3 <u>If taxable income is:</u>	<u>The tax is:</u>
4 \$0 - \$20,000	2.59% of taxable income
5 \$20,001 - \$50,000	\$518, plus 2.88% of the excess 6 over \$20,000
7 \$50,001 - \$100,000	\$1,382, plus 3.36% of the excess 8 over \$50,000
9 \$100,001 - \$300,000	\$3,062, plus 4.24% of the excess 10 over \$100,000
11 \$300,001 and over	\$11,542, plus 4.54% of the 12 excess over \$300,000

13 6. SUBJECT TO SUBSECTION D OF THIS SECTION, FOR TAXABLE YEARS
14 BEGINNING FROM AND AFTER DECEMBER 31, 2018:

15 (a) IN THE CASE OF A SINGLE PERSON OR A MARRIED PERSON FILING
16 SEPARATELY:

17 <u>IF TAXABLE INCOME IS:</u>	<u>THE TAX IS:</u>
18 \$0 - \$26,500	2.59% OF TAXABLE INCOME
19 \$26,501 - \$53,000	\$686, PLUS 3.34% OF THE AMOUNT 20 OVER \$26,500
21 \$53,001 - \$159,000	\$1,571, PLUS 4.17% OF THE 22 AMOUNT OVER \$53,000
23 \$159,001 AND OVER	\$5,991, PLUS 4.50% OF THE AMOUNT 24 OVER \$159,000

25 (b) IN THE CASE OF A MARRIED COUPLE FILING A JOINT RETURN OR A
26 SINGLE PERSON WHO IS A HEAD OF A HOUSEHOLD:

27 <u>IF TAXABLE INCOME IS:</u>	<u>THE TAX IS:</u>
28 \$0 - \$53,000	2.59% OF TAXABLE INCOME
29 \$53,001 - \$106,000	\$1,373, PLUS 3.34% OF THE AMOUNT 30 OVER \$53,000
31 \$106,001 - \$318,000	\$3,143, PLUS 4.17% OF THE AMOUNT 32 OVER \$106,000
33 \$318,001 AND OVER	\$11,983, PLUS 4.50% OF THE 34 AMOUNT OVER \$318,000

35 B. For the taxable year beginning from and after December 31, 2014
36 through December 31, 2015, the department shall adjust the income dollar
37 amounts for each rate bracket prescribed by subsection A, paragraph 5 of
38 this section according to the average annual change in the metropolitan
39 Phoenix consumer price index published by the United States DEPARTMENT OF
40 LABOR, bureau of labor statistics. The revised dollar amounts shall be
41 raised to the nearest whole dollar. The income dollar amounts for each
42 rate bracket may not be revised below the amounts prescribed in the prior
43 taxable year.

44 C. For each taxable year beginning from and after December 31, 2015
45 THROUGH DECEMBER 31, 2018, the department shall adjust the income dollar

1 amounts for each rate bracket prescribed by subsection A, paragraph 5 of
2 this section according to the average annual change in the metropolitan
3 Phoenix consumer price index published by the United States DEPARTMENT OF
4 LABOR, bureau of labor statistics. The revised dollar amounts shall be
5 raised to the nearest whole dollar. The income dollar amounts for each
6 rate bracket may not be revised below the amounts prescribed in the prior
7 taxable year.

8 D. FOR EACH TAXABLE YEAR BEGINNING FROM AND AFTER DECEMBER 31,
9 2019, THE DEPARTMENT SHALL ADJUST THE INCOME DOLLAR AMOUNT FOR EACH RATE
10 BRACKET PRESCRIBED BY SUBSECTION A, PARAGRAPH 6 OF THIS SECTION ACCORDING
11 TO THE AVERAGE ANNUAL CHANGE IN THE METROPOLITAN PHOENIX CONSUMER PRICE
12 INDEX PUBLISHED BY THE UNITED STATES DEPARTMENT OF LABOR, BUREAU OF LABOR
13 STATISTICS. THE REVISED DOLLAR AMOUNTS SHALL BE RAISED TO THE NEAREST
14 WHOLE DOLLAR. THE INCOME DOLLAR AMOUNTS FOR EACH RATE BRACKET MAY NOT BE
15 REVISED BELOW THE AMOUNTS PRESCRIBED IN THE PRIOR TAXABLE YEAR.

16 Sec. 18. Section 43-1021, Arizona Revised Statutes, is amended to
17 read:

18 43-1021. Addition to Arizona gross income

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

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

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

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

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

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

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

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

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

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

16 10. The amount by which the adjusted basis computed under the
17 internal revenue code with respect to property for which a credit was
18 claimed under section 43-1074.02, 43-1081 or 43-1081.01 and that is sold
19 or otherwise disposed of during the taxable year exceeds the adjusted
20 basis of the property computed under section 43-1074.02, 43-1081 or
21 43-1081.01, as applicable.

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

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

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

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

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

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

6 17. The amount of any previously deferred original issue discount
7 that was deducted in computing federal adjusted gross income in the
8 current year pursuant to section 108(i) of the internal revenue code as
9 added by section 1231 of the American recovery and reinvestment act of
10 2009 (P.L. 111-5), to the extent that the amount was previously subtracted
11 from Arizona gross income pursuant to section 43-1022, paragraph ~~22~~ 21.

12 18. If a subtraction is or has been taken by the taxpayer under
13 section 43-1024, in the current or a prior taxable year for the full
14 amount of eligible access expenditures paid or incurred to comply with the
15 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)
16 or title 41, chapter 9, article 8, any amount of eligible access
17 expenditures that is recognized under the internal revenue code, including
18 any amount that is amortized according to federal amortization schedules,
19 and that is included in computing taxable income for the current taxable
20 year.

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

26 (a) "Legal tender" means a medium of exchange, including specie,
27 that is authorized by the United States Constitution or Congress ~~for the~~
28 ~~payment of TO PAY~~ debts, public charges, taxes and dues.

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

30 Sec. 19. Section 43-1022, Arizona Revised Statutes, is amended to
31 read:

32 43-1022. Subtractions from Arizona gross income

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

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

36 2. Benefits, annuities and pensions in an amount totaling not more
37 than ~~two thousand five hundred dollars~~ \$2,500 received from one or more of
38 the following:

39 (a) The United States government service retirement and disability
40 fund, the United States foreign service retirement and disability system
41 and any other retirement system or plan established by federal law.

42 (b) The Arizona state retirement system, the corrections officer
43 retirement plan, the public safety personnel retirement system, the
44 elected officials' retirement plan, an optional retirement program
45 established by the Arizona board of regents under section 15-1628, an

1 optional retirement program established by a community college district
2 board under section 15-1451 or a retirement plan established for employees
3 of a county, city or town in this state.

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

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

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

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

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

19 8. The portion of any wages or salaries paid or incurred by the
20 taxpayer for the taxable year that is equal to the amount of the federal
21 work opportunity credit, the empowerment zone employment credit, the
22 credit for employer paid social security taxes on employee cash tips and
23 the Indian employment credit that the taxpayer received under sections
24 45A, 45B, 51(a) and 1396 of the internal revenue code.

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

28 ~~10.~~ 9. The amount of exploration expenses that is determined
29 pursuant to section 617 of the internal revenue code, that has been
30 deferred in a taxable year ending before January 1, 1990 and for which a
31 subtraction has not previously been made. The subtraction shall be made
32 on a ratable basis as the units of produced ores or minerals discovered or
33 explored as a result of this exploration are sold.

34 ~~11.~~ 10. The amount included in federal adjusted gross income
35 pursuant to section 86 of the internal revenue code, relating to taxation
36 of social security and railroad retirement benefits.

37 ~~12.~~ 11. To the extent not already excluded from Arizona gross
38 income under the internal revenue code, compensation received for active
39 service as a member of the reserves, the national guard or the armed
40 forces of the United States, including compensation for service in a
41 combat zone as determined under section 112 of the internal revenue code.

42 ~~13.~~ 12. The amount of unreimbursed medical and hospital costs,
43 adoption counseling, legal and agency fees and other nonrecurring costs of
44 adoption not to exceed ~~three thousand dollars~~ \$3,000. In the case of a
45 husband and wife who file separate returns, the subtraction may be taken

1 by either taxpayer or may be divided between them, but the total
2 subtractions allowed both husband and wife shall not exceed ~~three thousand~~
3 ~~dollars~~ \$3,000. The subtraction under this paragraph may be taken for the
4 costs that are described in this paragraph and that are incurred in prior
5 years, but the subtraction may be taken only in the year during which the
6 final adoption order is granted.

7 ~~14.~~ 13. The amount authorized by section 43-1027 for the taxable
8 year relating to qualified wood stoves, wood fireplaces or gas fired
9 fireplaces.

10 ~~15.~~ 14. The amount by which a net operating loss carryover or
11 capital loss carryover allowable pursuant to section 43-1029, subsection F
12 exceeds the net operating loss carryover or capital loss carryover
13 allowable pursuant to section 1341(b)(5) of the internal revenue code.

14 ~~16.~~ 15. Any amount of qualified educational expenses that is
15 distributed from a qualified state tuition program determined pursuant to
16 section 529 of the internal revenue code and that is included in income in
17 computing federal adjusted gross income.

18 ~~17.~~ 16. Any item of income resulting from an installment sale that
19 has been properly subjected to income tax in another state in a previous
20 taxable year and that is included in Arizona gross income in the current
21 taxable year.

22 ~~18.~~ 17. The amount authorized by section 43-1030 relating to
23 holocaust survivors.

24 ~~19.~~ 18. For property placed in service:

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

31 (b) In taxable years beginning from and after December 31, 2012
32 through December 31, 2013, an amount determined in the year the asset was
33 placed in service based on the calculation in subdivision (a) of this
34 paragraph. In the first taxable year beginning from and after December
35 31, 2013, the taxpayer may elect to subtract the amount necessary to make
36 the depreciation claimed to date for the purposes of this title the same
37 as it would have been if subdivision (c) of this paragraph had applied for
38 the entire time the asset was in service. Subdivision (c) of this
39 paragraph applies for the remainder of the asset's life. If the taxpayer
40 does not make the election under this subdivision, subdivision (a) of this
41 paragraph applies for the remainder of the asset's life.

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

1 ten percent of the amount allowed pursuant to section 168(k) of the
2 internal revenue code.

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

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

14 ~~20.~~ 19. With respect to property that is sold or otherwise
15 disposed of during the taxable year by a taxpayer that complied with
16 section 43-1021, paragraph 14 with respect to that property, the amount of
17 depreciation that has been allowed pursuant to section 167(a) of the
18 internal revenue code to the extent that the amount has not already
19 reduced Arizona taxable income in the current or prior taxable years.

20 ~~21.~~ 20. The amount contributed during the taxable year to college
21 savings plans established pursuant to section 529 of the internal revenue
22 code to the extent that the contributions were not deducted in computing
23 federal adjusted gross income. The amount subtracted shall not exceed:

24 (a) ~~Two thousand dollars~~ \$2,000 for a single individual or a head
25 of household.

26 (b) ~~Four thousand dollars~~ \$4,000 for a married couple filing a
27 joint return. In the case of a husband and wife who file separate
28 returns, the subtraction may be taken by either taxpayer or may be divided
29 between them, but the total subtractions allowed both husband and wife
30 shall not exceed ~~four thousand dollars~~ \$4,000.

31 ~~22.~~ 21. The amount of any original issue discount that was
32 deferred and not allowed to be deducted in computing federal adjusted
33 gross income in the current taxable year pursuant to section 108(i) of the
34 internal revenue code as added by section 1231 of the American recovery
35 and reinvestment act of 2009 (P.L. 111-5).

36 ~~23.~~ 22. The amount of previously deferred discharge of
37 indebtedness income that is included in the computation of federal
38 adjusted gross income in the current taxable year pursuant to section
39 108(i) of the internal revenue code as added by section 1231 of the
40 American recovery and reinvestment act of 2009 (P.L. 111-5), to the extent
41 that the amount was previously added to Arizona gross income pursuant to
42 section 43-1021, paragraph 16.

43 ~~24.~~ 23. The portion of the net operating loss carryforward that
44 would have been allowed as a deduction in the current year pursuant to
45 section 172 of the internal revenue code if the election described in

1 section 172(b)(1)(H) of the internal revenue code had not been made in the
2 year of the loss that exceeds the actual net operating loss carryforward
3 that was deducted in arriving at federal adjusted gross income. This
4 subtraction only applies to taxpayers who made an election under section
5 172(b)(1)(H) of the internal revenue code as amended by section 1211 of
6 the American recovery and reinvestment act of 2009 (P.L. 111-5) or as
7 amended by section 13 of the worker, homeownership, and business
8 assistance act of 2009 (P.L. 111-92).

9 ~~25.~~ 24. For taxable years beginning from and after December 31,
10 2013, the amount of any net capital gain included in federal adjusted
11 gross income for the taxable year derived from investment in a qualified
12 small business as determined by the Arizona commerce authority pursuant to
13 section 41-1518.

14 ~~26.~~ 25. An amount of any net long-term capital gain included in
15 federal adjusted gross income for the taxable year that is derived from an
16 investment in an asset acquired after December 31, 2011, as follows:

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

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

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

30 ~~27.~~ 26. If an individual is not claiming itemized deductions
31 pursuant to section 43-1042, the amount of premium costs for long-term
32 care insurance, as defined in section 20-1691.

33 ~~28.~~ 27. The amount of eligible access expenditures paid or
34 incurred during the taxable year to comply with the requirements of the
35 Americans with disabilities act of 1990 (P.L. 101-336) or title 41,
36 chapter 9, article 8 as provided by section 43-1024.

37 ~~29.~~ 28. For taxable years beginning from and after December 31,
38 2017, the amount of any net capital gain included in Arizona gross income
39 for the taxable year that is derived from the exchange of one kind of
40 legal tender for another kind of legal tender. For the purposes of this
41 paragraph:

42 (a) "Legal tender" means a medium of exchange, including specie,
43 that is authorized by the United States Constitution or Congress ~~for the~~
44 ~~payment of~~ TO PAY debts, public charges, taxes and dues.

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

1 ~~30.~~ 29. Benefits, annuities and pensions received as retired or
2 retainer pay of the uniformed services of the United States in amounts as
3 follows:

4 (a) For taxable years through December 31, 2018, an amount totaling
5 not more than ~~two thousand five hundred dollars~~ \$2,500.

6 (b) For taxable years beginning from and after December 31, 2018,
7 an amount totaling not more than ~~three thousand five hundred~~
8 ~~dollars~~ \$3,500.

9 Sec. 20. Section 43-1023, Arizona Revised Statutes, is amended to
10 read:

11 43-1023. Exemptions for blind persons and persons sixty-five
12 years of age or older

13 A. A taxpayer is allowed an exemption of ~~one thousand five hundred~~
14 ~~dollars~~ \$1,500:

15 1. For a taxpayer who is blind or if either the taxpayer's central
16 visual acuity does not exceed 20/200 in the better eye with correcting
17 lenses or the taxpayer's visual acuity is greater than 20/200 but is
18 accompanied by a limitation in the fields of vision such that the widest
19 diameter of the visual field subtends an angle ~~no~~ NOT greater than twenty
20 degrees.

21 2. For the taxpayer's spouse if a separate return is made by the
22 taxpayer, ~~AND~~ if the spouse is blind, ~~as defined~~ DESCRIBED in paragraph
23 1 of this subsection, has no Arizona adjusted gross income for the
24 calendar year in which the taxable year of the taxpayer begins and is not
25 the dependent of another taxpayer. For the purposes of this paragraph,
26 the determination of whether the spouse is blind shall be made at the
27 close of the taxable year of the taxpayer. If the spouse dies during ~~such~~
28 THE taxable year, the determination shall be made as of the time of the
29 spouse's death.

30 B. A taxpayer is allowed an exemption of ~~two thousand three hundred~~
31 ~~dollars~~ \$2,300 for:

32 ~~1. Each dependent of the taxpayer, as defined in section 43-1001.~~

33 ~~2.~~ 1. Each person ~~age~~ sixty-five YEARS OF AGE or older regardless
34 of the person's relationship to the taxpayer:

35 (a) If the taxpayer pays more than one-fourth of the total cost of
36 maintaining ~~such~~ THAT person in a nursing care institution or residential
37 care institution licensed pursuant to title 36, chapter 4, or an assisted
38 living facility provider of a type certified pursuant to title 11, chapter
39 2, article 7, if such payments exceed ~~eight hundred dollars~~ \$800 in the
40 taxable year.

41 (b) If the taxpayer otherwise makes payments exceeding ~~eight~~
42 ~~hundred dollars~~ \$800 in the taxable year for home health care or other
43 types of medical care.

1 ~~3.~~ 2. For taxable years beginning from and after December 31,
2 2003, each birth for which a certificate of birth resulting in stillbirth
3 has been issued pursuant to section 36-330 if the child otherwise would
4 have been a member of the taxpayer's household. The taxpayer may claim
5 the exemption under this paragraph only in the taxable year in which the
6 stillbirth occurred.

7 C. For taxable years beginning from and after December 31, 1998, a
8 resident taxpayer is allowed an exemption of ~~ten thousand dollars~~ \$10,000
9 for each parent or ancestor of a parent of the taxpayer, who is ~~age~~
10 sixty-five YEARS OF AGE or older, who requires assistance with activities
11 of daily living and who lives in the taxpayer's principal residence for
12 the entire taxable year, if the taxpayer pays more than one-half of the
13 person's total support and maintenance costs. An exemption under this
14 subsection is in lieu of an exemption under subsection B of this section
15 for the same person.

16 D. ~~A taxpayer shall not take more than one exemption~~ THE EXEMPTION
17 UNDER SUBSECTION C OF THIS SECTION IS IN LIEU OF CLAIMING A CREDIT for the
18 same person under ~~either subsection B or C of this~~ section 43-1073.01.

19 E. A taxpayer is allowed an exemption of ~~two thousand one hundred~~
20 ~~dollars~~ \$2,100:

21 1. If the taxpayer has attained ~~the age of~~ sixty-five YEARS OF AGE
22 before the close of the taxable year filing a separate or joint return and
23 the taxpayer is not claimed as a dependent by another taxpayer.

24 2. For the taxpayer's spouse if the spouse has attained ~~the age of~~
25 sixty-five YEARS OF AGE before the close of the taxable year, a joint
26 return is filed and the spouse is not a dependent of another taxpayer.

27 Sec. 21. Section 43-1024, Arizona Revised Statutes, is amended to
28 read:

29 43-1024. Americans with disabilities act access expenditures

30 A. For taxable years beginning from and after December 31, 2017, in
31 computing Arizona adjusted gross income, a subtraction is allowed under
32 section 43-1022, paragraph ~~28~~ 27 for eligible business access expenditures
33 paid or incurred by the taxpayer during the taxable year in order to
34 comply with the requirements of the Americans with disabilities act of
35 1990 (P.L. 101-336) or title 41, chapter 9, article 8 by retrofitting
36 developed real property that was originally placed in service at least ten
37 years before the current taxable year.

38 B. For the purposes of this section, eligible business access
39 expenditures include reasonable and necessary amounts paid or incurred to:

40 1. Remove any barriers that prevent a business from being
41 accessible to or usable by individuals with disabilities.

42 2. Provide qualified interpreters or other methods of making audio
43 materials available to hearing-impaired individuals.

1 3. Provide qualified readers, taped texts and other effective
2 methods of making visually delivered materials available to individuals
3 with visual impairments.

4 4. Acquire or modify equipment or devices for individuals with
5 disabilities.

6 5. Provide other similar services, modifications, materials or
7 equipment.

8 C. A taxpayer who has been cited for noncompliance with the
9 Americans with disabilities act of 1990 or title 41, chapter 9, article 8
10 by either federal or state enforcement officials is ineligible for a
11 subtraction under this section for any expenditure required to cure the
12 cited violation.

13 Sec. 22. Heading change

14 The article heading of title 43, chapter 10, article 4, Arizona
15 Revised Statutes, is changed from "DEDUCTIONS AND PERSONAL EXEMPTIONS" to
16 "DEDUCTIONS".

17 Sec. 23. Section 43-1041, Arizona Revised Statutes, is amended to
18 read:

19 43-1041. Optional standard deduction

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

21 1. In the case of a single person or a married person filing
22 separately, the standard deduction ~~shall be four thousand fifty dollars~~ IS
23 \$12,200, subject to subsection ~~G~~ H of this section.

24 2. IN THE CASE OF A SINGLE PERSON WHO IS A HEAD OF A HOUSEHOLD, THE
25 STANDARD DEDUCTION IS \$18,350, SUBJECT TO SUBSECTION H OF THIS SECTION.

26 ~~2.~~ 3. In the case of a married couple filing a joint return ~~or a~~
27 ~~single person who is a head of a household~~, the standard deduction ~~shall~~
28 ~~be eight thousand one hundred dollars~~ IS \$24,400, subject to subsection
29 ~~G~~ H of this section.

30 B. The standard deduction provided for in subsection A of this
31 section ~~shall be~~ IS in lieu of all itemized deductions allowed by section
32 43-1042, which are to be subtracted from Arizona adjusted gross income in
33 computing taxable income, ~~but not in lieu of the personal exemption~~
34 ~~allowed by section 43-1043.~~

35 C. The standard deduction ~~shall be~~ IS allowed if the taxpayer so
36 elects. The election is made by the taxpayer claiming on the tax return
37 the amount provided for in this section in lieu of the itemized deductions
38 allowed under section 43-1042. Electing to file a short form return or a
39 simplified return that does not allow itemized deductions to be claimed is
40 considered to be an election to claim the standard deduction.

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

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

4 F. Except as provided in subsection G of this section, a change of
5 an election to take, or not to take, the standard deduction for any
6 taxable year may be made after the filing of the return for ~~such~~ THAT
7 year.

8 G. A taxpayer is not allowed to change an election to take, or not
9 to take, the standard deduction if:

10 1. The spouse of the taxpayer filed a separate return for any
11 taxable year corresponding, for the purposes of subsection D of this
12 section, to the taxable year of the taxpayer unless both of the following
13 apply:

14 (a) The spouse makes a change of election with respect to the
15 standard deduction for the taxable year covered in the separate return
16 consistent with the change of election sought by the taxpayer.

17 (b) The taxpayer and spouse consent in writing to the assessment,
18 within such a period as may be agreed on with the department, of any
19 deficiency, to the extent attributable to the change of election, even
20 though at the time of ~~the~~ filing ~~of~~ the consent the assessment of the
21 deficiency would otherwise be prevented by the operation of any law or
22 rule of law.

23 2. The tax liability of the taxpayer or the taxpayer's spouse for
24 the taxable year has been compromised.

25 H. For each taxable year beginning ~~on or~~ FROM AND after ~~January 1~~
26 DECEMBER 31, 2019, the department shall adjust the dollar amounts
27 prescribed by subsection A, paragraphs 1, ~~and~~ 2 AND 3 of this section
28 ~~according to the average annual change in the metropolitan Phoenix~~
29 ~~consumer price index published by the United States bureau of labor~~
30 ~~statistics. The revised dollar amounts shall be raised to the nearest~~
31 ~~whole dollar. The designated dollar amounts shall not be revised below~~
32 ~~the amounts allowed by the standard deduction in the prior taxable year.~~
33 FOR INFLATION IN THE SAME MANNER IN WHICH THE FEDERAL BASIC STANDARD
34 DEDUCTION IS ADJUSTED FOR INFLATION PURSUANT TO SECTION 63 OF THE INTERNAL
35 REVENUE CODE.

36 I. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2018,
37 THE STANDARD DEDUCTION ALLOWED UNDER SUBSECTION A OF THIS SECTION SHALL BE
38 INCREASED BY THE AMOUNT EQUAL TO TWENTY-FIVE PERCENT OF THE TOTAL AMOUNT
39 OF A TAXPAYER'S CHARITABLE DEDUCTIONS THAT WOULD HAVE BEEN ALLOWED IF THE
40 TAXPAYER ELECTED TO CLAIM ITEMIZED DEDUCTIONS UNDER SECTION 43-1042 RATHER
41 THAN ELECT THE STANDARD DEDUCTION.

42 Sec. 24. Repeal

43 Section 43-1043, Arizona Revised Statutes, is repealed.

1 2. Either a valid social security number or an individual taxpayer
2 identification number issued by the internal revenue service for the
3 claimant's spouse and any qualifying children of the claimant.

4 Sec. 26. Section 43-1073, Arizona Revised Statutes, is amended to
5 read:

6 43-1073. Family income tax credit

7 A. Subject to the conditions prescribed by this section, a credit
8 is allowed against the taxes imposed by this chapter for a taxable year
9 for taxpayers whose Arizona adjusted gross income, plus the amount
10 subtracted for exemptions under section 43-1023, is:

11 1. ~~Twenty thousand dollars~~ \$20,000 or less in the case of a married
12 couple filing a joint return with ~~no~~ NOT more than one dependent or a
13 single person who is a head of a household with ~~no~~ NOT more than one
14 dependent.

15 2. ~~Twenty-three thousand six hundred dollars~~ \$23,600 or less in the
16 case of a married couple filing a joint return with two dependents.

17 3. ~~Twenty-seven thousand three hundred dollars~~ \$27,300 or less in
18 the case of a married couple filing a joint return with three dependents.

19 4. ~~Thirty-one thousand dollars~~ \$31,000 or less in the case of a
20 married couple filing a joint return with four or more dependents.

21 5. ~~Twenty thousand one hundred thirty-five dollars~~ \$20,135 or less
22 in the case of a single person who is a head of a household with two
23 dependents.

24 6. ~~Twenty-three thousand eight hundred dollars~~ \$23,800 or less in
25 the case of a single person who is a head of a household with three
26 dependents.

27 7. ~~Twenty-five thousand two hundred dollars~~ \$25,200 or less in the
28 case of a single person who is a head of a household with four dependents.

29 8. ~~Twenty-six thousand five hundred seventy-five dollars~~ \$26,575 or
30 less in the case of a single person who is a head of a household with five
31 or more dependents.

32 9. ~~Ten thousand dollars~~ \$10,000 or less in the case of a single
33 person or a married person filing separately.

34 B. The amount of the credit is equal to ~~forty dollars~~ \$40 for each
35 person who is a resident of this state and ~~for whom a personal or~~
36 ~~dependent exemption is allowed with respect to the taxpayer pursuant to~~
37 ~~section 43-1043 and 43-1023, subsection B, paragraph 1, WHO IS EITHER THE~~
38 ~~TAXPAYER, THE TAXPAYER'S SPOUSE WHO DOES NOT FILE A RETURN OR A DEPENDENT~~
39 but MAY not ~~to~~ exceed:

40 1. ~~Two hundred forty dollars~~ \$240 in the case of a married couple
41 filing a joint return or a single person who is a head of a household.

42 2. ~~One hundred twenty dollars~~ \$120 in the case of a single person
43 or a married couple filing separately.

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

1 Sec. 27. Title 43, chapter 10, article 5, Arizona Revised Statutes,
2 is amended by adding section 43-1073.01, to read:

3 43-1073.01. Dependent tax credit

4 A. A CREDIT IS ALLOWED AGAINST THE TAXES IMPOSED BY THIS TITLE FOR
5 A TAXABLE YEAR FOR EACH DEPENDENT OF A TAXPAYER AS PROVIDED BY THIS
6 SECTION.

7 B. FOR TAXPAYERS WHOSE FEDERAL ADJUSTED GROSS INCOME IS LESS THAN
8 \$200,000 FOR A TAXPAYER WHO IS A SINGLE PERSON, A MARRIED PERSON FILING
9 SEPARATELY OR A HEAD OF HOUSEHOLD OR IS LESS THAN \$400,000 FOR A MARRIED
10 COUPLE FILING A JOINT RETURN, THE AMOUNT OF THE CREDIT IS:

11 1. \$100 FOR EACH DEPENDENT WHO IS UNDER SEVENTEEN YEARS OF AGE AT
12 THE END OF THE TAXABLE YEAR.

13 2. \$25 FOR EACH DEPENDENT WHO IS AT LEAST SEVENTEEN YEARS OF AGE AT
14 THE END OF THE TAXABLE YEAR.

15 C. FOR TAXPAYERS WHOSE FEDERAL ADJUSTED GROSS INCOME IS \$200,000 OR
16 MORE FOR A TAXPAYER WHO IS A SINGLE PERSON, A MARRIED PERSON FILING
17 SEPARATELY OR A HEAD OF HOUSEHOLD OR IS \$400,000 OR MORE FOR A MARRIED
18 COUPLE FILING A JOINT RETURN, THE AMOUNT OF THE CREDIT IS:

19 1. \$100 MINUS FIVE PERCENT FOR EACH \$1,000, OR FRACTION THEREOF, BY
20 WHICH THE TAXPAYER'S FEDERAL ADJUSTED GROSS INCOME EXCEEDS THE APPLICABLE
21 THRESHOLD PROVIDED IN THIS SUBSECTION FOR EACH DEPENDENT WHO IS UNDER
22 SEVENTEEN YEARS OF AGE AT THE END OF THE TAXABLE YEAR.

23 2. \$25 MINUS FIVE PERCENT FOR EACH \$1,000, OR FRACTION THEREOF, BY
24 WHICH THE TAXPAYER'S FEDERAL ADJUSTED GROSS INCOME EXCEEDS THE APPLICABLE
25 THRESHOLD PROVIDED IN THIS SUBSECTION FOR EACH DEPENDENT WHO IS AT LEAST
26 SEVENTEEN YEARS OF AGE AT THE END OF THE TAXABLE YEAR.

27 D. IN THE CASE OF A NONRESIDENT OR PART-YEAR RESIDENT TAXPAYER, THE
28 CREDIT ALLOWED UNDER THIS SECTION IS ALLOWED IN THE PERCENTAGE THAT THE
29 TAXPAYER'S ARIZONA GROSS INCOME IS OF THE FEDERAL ADJUSTED GROSS INCOME.

30 Sec. 28. Section 43-1095, Arizona Revised Statutes, is amended to
31 read:

32 43-1095. Apportionment of deductions

33 ~~A. In computing Arizona taxable income a nonresident taxpayer,
34 except a member of the armed forces, shall be allowed that percentage of
35 the exemptions set forth in section 43-1043 which the taxpayer's Arizona
36 gross income is of the federal adjusted gross income.~~

37 ~~B.~~ In ~~the case of~~ COMPUTING ARIZONA TAXABLE INCOME a nonresident
38 taxpayer, the standard deduction allowed in section 43-1041 and the
39 itemized deductions allowed in section 43-1042 shall be allowed in the
40 percentage ~~which~~ THAT the taxpayer's Arizona gross income is of the
41 federal adjusted gross income.

1 Sec. 29. Section 43-1098, Arizona Revised Statutes, is amended to
2 read:

3 43-1098. Apportionment of exemptions

4 A. Any resident taxpayer, other than an active member of the armed
5 forces of the United States or any other auxiliary branch, who commences
6 or terminates ~~his~~ residency in this state during any one taxable year
7 shall prorate the ~~following~~ EXEMPTIONS PROVIDED IN SECTION 43-1023 FOR
8 BLIND PERSONS AND FOR PERSONS SIXTY-FIVE YEARS OF AGE OR OLDER on the
9 basis of the proportion ~~which such~~ THAT THE taxpayer's total Arizona gross
10 income bears to ~~the~~ federal adjusted gross income. ~~;~~

11 ~~1. The personal exemption provided in section 43-1043.~~

12 ~~2. The exemptions provided in section 43-1023 for the blind, for~~
13 ~~persons age sixty-five or older and for dependents.~~

14 B. The percentage of THE exemption allowed ~~shall be~~ IS computed by
15 dividing the taxpayer's Arizona gross income by the federal adjusted gross
16 income.

17 Sec. 30. Section 43-1121, Arizona Revised Statutes, is amended to
18 read:

19 43-1121. Additions to Arizona gross income; corporations

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

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

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

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

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

39 5. The amount of discharge of indebtedness income that is deferred
40 and excluded from the computation of federal taxable income in the current
41 taxable year pursuant to section 108(i) of the internal revenue code as
42 added by section 1231 of the American recovery and reinvestment act of
43 2009 (P.L. 111-5).

44 6. The amount of any previously deferred original issue discount
45 that was deducted in computing federal taxable income in the current year

1 pursuant to section 108(i) of the internal revenue code as added by
2 section 1231 of the American recovery and reinvestment act of 2009
3 (P.L. 111-5), to the extent that the amount was previously subtracted from
4 Arizona gross income pursuant to section 43-1122, paragraph 6.

5 7. The amount of dividend income received from corporations and
6 allowed as a deduction pursuant to sections 243, ~~and~~ 245, 245A AND
7 250(a)(1)(B) of the internal revenue code.

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

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

16 10. Commissions, rentals and other amounts paid or accrued to a
17 domestic international sales corporation controlled by the payor
18 corporation if the domestic international sales corporation is not
19 required to report its taxable income to this state because its income is
20 not derived from or attributable to sources within this state. If the
21 domestic international sales corporation is subject to article 4 of this
22 chapter, the department shall prescribe by rule the method of determining
23 the portion of the commissions, rentals and other amounts that are paid or
24 accrued to the controlled domestic international sales corporation and
25 that shall be deducted by the payor. For the purposes of this paragraph,
26 "control" means direct or indirect ownership or control of fifty percent
27 or more of the voting stock of the domestic international sales
28 corporation by the payor corporation.

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

31 12. The amount of exploration expenses determined pursuant to
32 section 617 of the internal revenue code to the extent that they exceed
33 ~~seventy-five thousand dollars~~ \$75,000 and to the extent that the election
34 is made to defer those expenses not in excess of ~~seventy-five thousand~~
35 ~~dollars~~ \$75,000.

36 13. Amortization of costs incurred to install pollution control
37 devices and deducted pursuant to the internal revenue code or the amount
38 of deduction for depreciation taken pursuant to the internal revenue code
39 on pollution control devices for which an election is made pursuant to
40 section 43-1129.

41 14. The amount of depreciation or amortization of costs of child
42 care facilities deducted pursuant to section 167 or 188 of the internal
43 revenue code for which an election is made to amortize pursuant to section
44 43-1130.

1 15. The loss of an insurance company that is exempt under section
2 43-1201 to the extent that it is included in computing Arizona gross
3 income on a consolidated return pursuant to section 43-947.

4 16. The amount by which the depreciation or amortization computed
5 under the internal revenue code with respect to property for which a
6 credit was taken under section 43-1169 exceeds the amount of depreciation
7 or amortization computed pursuant to the internal revenue code on the
8 Arizona adjusted basis of the property.

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

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

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

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

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

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

35 23. Any amount of expenses that were deducted pursuant to the
36 internal revenue code and for which a credit is claimed under section
37 43-1178.

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

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

44 26. If a subtraction is or has been taken by the taxpayer under
45 section 43-1124, in the current or a prior taxable year for the full

1 amount of eligible access expenditures paid or incurred to comply with the
2 requirements of the Americans with disabilities act of 1990 (P.L. 101-336)
3 or title 41, chapter 9, article 8, any amount of eligible access
4 expenditures that is recognized under the internal revenue code, including
5 any amount that is amortized according to federal amortization schedules,
6 and that is included in computing Arizona taxable income for the current
7 taxable year.

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

13 (a) "Legal tender" means a medium of exchange, including specie,
14 that is authorized by the United States Constitution or Congress ~~for the~~
15 ~~payment of TO PAY~~ debts, public charges, taxes and dues.

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

17 Sec. 31. Section 43-1122, Arizona Revised Statutes, is amended to
18 read:

19 43-1122. Subtractions from Arizona gross income; corporations

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

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

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

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

30 4. The portion of any wages or salaries paid or incurred by the
31 taxpayer for the taxable year that is equal to the amount of the federal
32 work opportunity credit, the empowerment zone employment credit, the
33 credit for employer paid social security taxes on employee cash tips and
34 the Indian employment credit that the taxpayer received under sections
35 45A, 45B, 51(a) and 1396 of the internal revenue code.

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

42 6. The amount of any original issue discount that was deferred and
43 not allowed to be deducted in computing federal taxable income in the
44 current taxable year pursuant to section 108(i) of the internal revenue

1 code as added by section 1231 of the American recovery and reinvestment
2 act of 2009 (P.L. 111-5).

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

10 8. With respect to a financial institution as defined in section
11 6-101, expenses and interest relating to tax-exempt income disallowed
12 pursuant to section 265 of the internal revenue code.

13 9. Dividends received from another corporation owned or controlled
14 directly or indirectly by a recipient corporation. For the purposes of
15 this paragraph, "control" means direct or indirect ownership or control of
16 fifty percent or more of the voting stock of the payor corporation by the
17 recipient corporation. Dividends shall have the meaning provided in
18 section 316 of the internal revenue code. This subtraction shall apply
19 without regard to section 43-961, paragraph 2 and article 4 of this
20 chapter.

21 10. Interest income received on obligations of the United States.

22 11. The amount of dividend income from foreign corporations. **FOR**
23 **THE PURPOSES OF THIS PARAGRAPH, GROSS UP INCOME AS DESCRIBED IN SECTION 78**
24 **OF THE INTERNAL REVENUE CODE, GLOBAL INTANGIBLE LOW-TAXED INCOME AS**
25 **DEFINED IN SECTION 951A OF THE INTERNAL REVENUE CODE AND SUBPART F INCOME**
26 **AS DEFINED IN SECTION 952 OF THE INTERNAL REVENUE CODE SHALL BE CONSIDERED**
27 **FOREIGN DIVIDENDS.**

28 12. The amount of net operating loss allowed by section 43-1123.

29 13. The amount of any state income tax refunds received that were
30 included as income in computing federal taxable income.

31 14. The amount of expense recapture included in income pursuant to
32 section 617 of the internal revenue code for mine exploration expenses.

33 15. The amount of deferred exploration expenses allowed by section
34 43-1127.

35 16. The amount of exploration expenses related to the exploration
36 of oil, gas or geothermal resources, computed in the same manner and on
37 the same basis as a deduction for mine exploration pursuant to section 617
38 of the internal revenue code. This computation is subject to the
39 adjustments contained in section 43-1121, paragraph 12 and paragraphs 14
40 and 15 of this section relating to exploration expenses.

41 17. The amortization of pollution control devices allowed by
42 section 43-1129.

43 18. The amount of amortization of the cost of child care facilities
44 pursuant to section 43-1130.

1 19. The amount of income from a domestic international sales
2 corporation required to be included in the income of its shareholders
3 pursuant to section 995 of the internal revenue code.

4 20. The income of an insurance company that is exempt under section
5 43-1201 to the extent that it is included in computing Arizona gross
6 income on a consolidated return pursuant to section 43-947.

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

10 22. An amount equal to the depreciation allowable pursuant to
11 section 167(a) of the internal revenue code for the taxable year computed
12 as if the election described in section 168(k)(7) of the internal revenue
13 code had been made for each applicable class of property in the year the
14 property was placed in service.

15 23. The amount of eligible access expenditures paid or incurred
16 during the taxable year to comply with the requirements of the Americans
17 with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9,
18 article 8 as provided by section 43-1124.

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

24 (a) "Legal tender" means a medium of exchange, including specie,
25 that is authorized by the United States Constitution or Congress ~~for the~~
26 ~~payment of~~ TO PAY debts, public charges, taxes and dues.

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

28 Sec. 32. Exemption from rulemaking

29 For the purposes of this act, the department of revenue is exempt
30 from the rulemaking requirements of title 41, chapter 6, Arizona Revised
31 Statutes, for one year after the effective date of this act.

32 Sec. 33. Legislative intent

33 The legislature intends:

34 1. To conform to South Dakota v. Wayfair, Inc., ___ U.S. ___, 138
35 S. Ct. 2080 (2018), in which the United States Supreme Court overturned
36 the physical presence rule of Quill Corp. v. North Dakota, 504 U.S. 298
37 (1992). Although a physical presence can still trigger a tax collection
38 obligation, the Court held in Wayfair that an economic presence can create
39 a sufficient basis for taxation. The legislature finds and declares that
40 this act provides for the adoption of provisions on economic nexus, safe
41 harbor and undue burden. To ensure that there is not an undue burden on
42 the public, taxation related to retail sales shall be solely contained
43 within section 42-5061, Arizona Revised Statutes, as amended by this act.

44 2. That further statutory changes will not occur for a period of
45 five years from the effective date of this act for further codification in

1 statute of the model city tax code for classifications of tax other than
2 retail. This initial period will also provide municipalities and the
3 department of revenue with stability to adapt to and implement the new
4 regulatory structure created by this act.

5 Sec. 34. Purpose

6 Pursuant to section 43-233, Arizona Revised Statutes, the
7 legislature enacts section 43-1073.01, Arizona Revised Statutes, as added
8 by this act, to mitigate the costs incurred by taxpayers who care for
9 dependents.

10 Sec. 35. Applicability

11 For the purposes of the following sections, the tax reporting and
12 payment requirements imposed by this act apply prospectively and the
13 following sections apply to taxable periods beginning from and after
14 September 30, 2019:

15 1. Sections 42-5001, 42-5005, 42-5159 and 42-6002, Arizona Revised
16 Statutes, as amended by this act.

17 2. Section 42-5061, Arizona Revised Statutes, as amended by Laws
18 2018, chapter 104, section 15, chapter 249, section 1 and this act.

19 3. Section 42-5061, Arizona Revised Statutes, as amended by Laws
20 2018, chapter 104, section 15, chapter 249, section 1, chapter 263,
21 section 1 and this act.

22 4. Sections 9-491.02, 42-5042, 42-5043 and 42-6017, Arizona Revised
23 Statutes, as added by this act.

24 Sec. 36. Retroactivity

25 A. Sections 42-1001 and 43-105, Arizona Revised Statutes, as
26 amended by this act, apply retroactively to taxable years beginning from
27 and after December 31, 2017.

28 B. Sections 42-1108, 43-222, 43-323, 43-945, 43-1001, 43-1011,
29 43-1021, 43-1022, 43-1023, 43-1024, 43-1041, 43-1072.02, 43-1073, 43-1095,
30 43-1098, 43-1121 and 43-1122, Arizona Revised Statutes, as amended by this
31 act, section 43-1073.01, Arizona Revised Statutes, as added by this act,
32 and section 43-1043, Arizona Revised Statutes, as repealed by this act,
33 apply retroactively to taxable years beginning from and after December 31,
34 2018.

35 Sec. 37. Conditional enactment

36 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2018,
37 chapter 104, section 15, chapter 249, section 1 and chapter 263, section 1
38 and this act, becomes effective on the date prescribed by Laws 2018,
39 chapter 263, section 5 but only on the occurrence of the condition
40 prescribed by Laws 2018, chapter 263, section 5.

APPROVED BY THE GOVERNOR MAY 31, 2019.

H.B. 2757

FILED IN THE OFFICE OF THE SECRETARY OF STATE MAY 31, 2019.