

State of Arizona  
House of Representatives  
Forty-seventh Legislature  
Second Regular Session  
2006

# HOUSE BILL 2429

## AN ACT

AMENDING TITLE 41, CHAPTER 10, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 41-1510.01; AMENDING SECTIONS 42-5061, 42-5075 AND 42-11054, ARIZONA REVISED STATUTES; AMENDING SECTION 43-222, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2005, CHAPTER 12, SECTION 1, CHAPTER 264, SECTION 1, CHAPTER 316, SECTION 2 AND CHAPTER 317, SECTION 10; REPEALING SECTION 43-222, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2005, CHAPTER 292, SECTION 1; AMENDING SECTION 43-1083, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE 5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1085; AMENDING TITLE 43, CHAPTER 11, ARTICLE 6, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1164; RELATING TO SOLAR ENERGY INCENTIVES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:  
2 Section 1. Title 41, chapter 10, article 1, Arizona Revised Statutes,  
3 is amended by adding section 41-1510.01, to read:  
4 41-1510.01. Solar energy tax incentives; qualification  
5 A. THE DEPARTMENT SHALL ESTABLISH A PROCEDURE FOR IDENTIFYING  
6 COMMERCIAL SOLAR ENERGY PROJECTS THAT QUALIFY FOR THE PURPOSES OF THE  
7 COMMERCIAL SOLAR ENERGY INCOME TAX CREDITS UNDER SECTIONS 43-1085 AND  
8 43-1164.  
9 B. TO QUALIFY FOR THE TAX CREDITS, A BUSINESS MUST APPLY IN A FORM  
10 PRESCRIBED BY THE DEPARTMENT, INCLUDING:  
11 1. THE NAME, ADDRESS AND TELEPHONE NUMBER OF THE BUSINESS PURCHASING  
12 THE SOLAR ENERGY DEVICE OR SYSTEM.  
13 2. THE NAME, ADDRESS AND TELEPHONE NUMBER OF A CONTACT PERSON WITH THE  
14 BUSINESS.  
15 3. THE PROJECTED DATE THAT THE INSTALLATION OF THE SOLAR ENERGY DEVICE  
16 OR SYSTEM WILL BEGIN AND THE PROJECTED FINISH DATE.  
17 4. THE LOCATION WHERE THE SOLAR ENERGY DEVICE OR SYSTEM WILL BE  
18 INSTALLED.  
19 5. THE TYPE OF SOLAR ENERGY DEVICE OR SYSTEM, ITS TOTAL COST,  
20 EXCLUDING FINANCING COSTS, AND THE ESTIMATED ANNUAL PERFORMANCE LEVEL.  
21 6. THE PROJECTED AMOUNT OF THE CREDIT AGAINST STATE INCOME TAXES.  
22 C. APPLICATIONS TO THE DEPARTMENT UNDER THIS SECTION ARE CONFIDENTIAL  
23 AND ARE NOT SUBJECT TO DISCLOSURE UNDER TITLE 39 FOR EIGHTEEN MONTHS AFTER  
24 THE DATE OF APPLICATION.  
25 D. THE DEPARTMENT SHALL:  
26 1. REVIEW AND EVALUATE EACH SUBMITTED APPLICATION.  
27 2. DETERMINE WITHIN THIRTY DAYS AFTER RECEIVING THE APPLICATION  
28 WHETHER THE APPLICATION MEETS THE CRITERIA FOR THE PURPOSES OF THE COMMERCIAL  
29 SOLAR ENERGY INCOME TAX CREDITS.  
30 3. PROVIDE ITS INITIAL CERTIFICATION OF A PROJECT TO THE APPLICANT AND  
31 TO THE DEPARTMENT OF REVENUE. THE INITIAL CERTIFICATION SHALL INCLUDE A  
32 UNIQUE IDENTIFYING NUMBER FOR EACH CERTIFIED INSTALLATION.  
33 E. ON THE COMPLETION OF EACH CERTIFIED INSTALLATION:  
34 1. THE BUSINESS MUST:  
35 (a) CERTIFY THAT THE INSTALLED SOLAR ENERGY DEVICE OR SYSTEM IS  
36 OPERATIONAL.  
37 (b) PROVIDE THE TOTAL AMOUNT OF INCOME TAX CREDITS TO BE CLAIMED.  
38 2. THE DEPARTMENT SHALL REVIEW THE INSTALLATION EXPENSES AND ISSUE A  
39 CREDIT CERTIFICATE TO THE BUSINESS. THE CREDIT CERTIFICATE SHALL INCLUDE THE  
40 ASSIGNED IDENTIFYING NUMBER.  
41 3. THE DEPARTMENT OF COMMERCE SHALL TRANSMIT THE CREDIT INFORMATION  
42 AND CERTIFICATE NUMBER TO THE DEPARTMENT OF REVENUE.  
43 4. THE DEPARTMENT OF COMMERCE SHALL NOT CERTIFY TAX CREDITS UNDER THIS  
44 SECTION IN ANY CALENDAR YEAR THAT EXCEED A TOTAL OF SEVEN MILLION DOLLARS.

1 F. THE DEPARTMENT OF COMMERCE AND THE DEPARTMENT OF REVENUE SHALL  
2 COLLABORATE IN ADOPTING RULES THAT ARE NECESSARY TO ACCOMPLISH THE INTENT AND  
3 PURPOSE OF THIS SECTION.

4 Sec. 2. Section 42-5061, Arizona Revised Statutes, is amended to read:  
5 42-5061. Retail classification; definitions

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

11 1. Professional or personal service occupations or businesses which  
12 involve sales or transfers of tangible personal property only as  
13 inconsequential elements.

14 2. Services rendered in addition to selling tangible personal property  
15 at retail.

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

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

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

26 6. Business activity which is properly included in any other business  
27 classification which is taxable under article 1 of this chapter.

28 7. The sale of stocks and bonds.

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

32 9. Prosthetic appliances as defined in section 23-501 prescribed or  
33 recommended by a health professional licensed pursuant to title 32, chapter  
34 7, 8, 11, 13, 14, 15, 16, 17 or 29.

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

36 11. Prescription eyeglasses or contact lenses.

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

38 13. Durable medical equipment which has a centers for medicare and  
39 medicaid services common procedure code, is designated reimbursable by  
40 medicare, is prescribed by a person who is licensed under title 32, chapter  
41 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and  
42 customarily used to serve a medical purpose, is generally not useful to a  
43 person in the absence of illness or injury and is appropriate for use in the  
44 home.

1           14. Sales to nonresidents of this state for use outside this state if  
2 the vendor ships or delivers the tangible personal property out of this  
3 state.

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

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

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

13           18. Food and drink to a person who is engaged in business which is  
14 classified under the restaurant classification and which provides such food  
15 and drink without monetary charge to its employees for their own consumption  
16 on the premises during the employees' hours of employment.

17           19. Articles of food, drink or condiment and accessory tangible  
18 personal property to a school district if such articles and accessory  
19 tangible personal property are to be prepared and served to persons for  
20 consumption on the premises of a public school within the district during  
21 school hours.

22           20. Lottery tickets or shares pursuant to title 5, chapter 5,  
23 article 1.

24           21. The sale of precious metal bullion and monetized bullion to the  
25 ultimate consumer, but the sale of coins or other forms of money for  
26 manufacture into jewelry or works of art is subject to the tax. For the  
27 purposes of this paragraph:

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

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

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

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

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

4           25. Tangible personal property sold to:

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

6           (b) A qualifying health care organization as defined in section  
7 42-5001 if the tangible personal property is used by the organization solely  
8 to provide health and medical related educational and charitable services.

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

14           (d) A qualifying community health center as defined in section  
15 42-5001.

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

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

27           26. Magazines or other periodicals or other publications by this state  
28 to encourage tourist travel.

29           27. Tangible personal property sold to a person that is subject to tax  
30 under this article by reason of being engaged in business classified under  
31 the prime contracting classification under section 42-5075, or to a  
32 subcontractor working under the control of a prime contractor that is subject  
33 to tax under article 1 of this chapter, if the property so sold is any of the  
34 following:

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

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

39           (c) Incorporated or fabricated by the person into any lake facility  
40 development in a commercial enhancement reuse district under conditions  
41 prescribed for the deduction allowed by section 42-5075, subsection B,  
42 paragraph 8.

43           28. The sale of a motor vehicle to:

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

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

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

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

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

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

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

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

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

38 35. Sales of tangible personal property that is shipped or delivered  
39 directly to a destination outside the United States for use in that foreign  
40 country.

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

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

1           38. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity  
2 sold to a qualified environmental technology manufacturer, producer or  
3 processor as defined in section 41-1514.02 and directly used or consumed in  
4 the generation or provision of on-site power or energy solely for  
5 environmental technology manufacturing, producing or processing or  
6 environmental protection. This paragraph shall apply for fifteen full  
7 consecutive calendar or fiscal years from the date the first paper  
8 manufacturing machine is placed in service. In the case of an environmental  
9 technology manufacturer, producer or processor who does not manufacture  
10 paper, the time period shall begin with the date the first manufacturing,  
11 processing or production equipment is placed in service.

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

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

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

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

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

43           42. A motor vehicle and any repair and replacement parts and tangible  
44 personal property becoming a part of such motor vehicle sold to a motor

1 carrier who is subject to a fee prescribed in title 28, chapter 16, article 4  
2 and who is engaged in the business of leasing or renting such property.

3 43. Livestock and poultry feed, salts, vitamins and other additives for  
4 livestock or poultry consumption that are sold to persons who are engaged in  
5 producing livestock, poultry, or livestock or poultry products or who are  
6 engaged in feeding livestock or poultry commercially. For the purposes of  
7 this paragraph, "poultry" includes ratites.

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

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

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

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

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

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

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

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

41 50. Sales of alternative fuel vehicles if the vehicle was manufactured  
42 as a diesel fuel vehicle and converted to operate on alternative fuel and  
43 equipment that is installed in a conventional diesel fuel motor vehicle to  
44 convert the vehicle to operate on an alternative fuel, as defined in section  
45 1-215.

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

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

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

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

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

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

29           3. Tangible personal property sold to persons engaged in business  
30 classified under the telecommunications classification and consisting of  
31 central office switching equipment, switchboards, private branch exchange  
32 equipment, microwave radio equipment and carrier equipment including optical  
33 fiber, coaxial cable and other transmission media which are components of  
34 carrier systems.

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

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

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

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

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

9           (b) Any foreign government for use by such government outside of this  
10 state.

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

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

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

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

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

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

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

42           (a) "New machinery and equipment" means machinery and equipment which  
43 have never been sold at retail except pursuant to leases or rentals which do  
44 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 the  
4 purposes of this paragraph, "research and development" means basic and  
5 applied research in the sciences and engineering, and designing, developing  
6 or testing prototypes, processes or new products, including research and  
7 development of computer software that is embedded in or an integral part of  
8 the prototype or new product or that is required for machinery or equipment  
9 otherwise exempt under this section to function effectively. Research and  
10 development do not include manufacturing quality control, routine consumer  
11 product testing, market research, sales promotion, sales service, research in  
12 social sciences or psychology, computer software research that is not  
13 included in the definition of research and development, or other  
14 nontechnological activities or technical services.

15 15. Machinery and equipment that are purchased by or on behalf of the  
16 owners of a soundstage complex and primarily used for motion picture,  
17 multimedia or interactive video production in the complex. This paragraph  
18 applies only if the initial construction of the soundstage complex begins  
19 after June 30, 1996 and before January 1, 2002 and the machinery and  
20 equipment are purchased before the expiration of five years after the start  
21 of initial construction. For the purposes of this paragraph:

22 (a) "Motion picture, multimedia or interactive video production"  
23 includes products for theatrical and television release, educational  
24 presentations, electronic retailing, documentaries, music videos, industrial  
25 films, CD-ROM, video game production, commercial advertising and television  
26 episode production and other genres that are introduced through developing  
27 technology.

28 (b) "Soundstage complex" means a facility of multiple stages including  
29 production offices, construction shops and related areas, prop and costume  
30 shops, storage areas, parking for production vehicles and areas that are  
31 leased to businesses that complement the production needs and orientation of  
32 the overall facility.

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

36 (a) Any direct broadcast satellite television or data transmission  
37 service that operates pursuant to 47 Code of Federal Regulations parts 25 and  
38 100.

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

41 (i) Over two-thirds of the transmissions, measured in megabytes,  
42 transmitted by the facility during the test period were transmitted to or on  
43 behalf of one or more direct broadcast satellite television or data  
44 transmission services that operate pursuant to 47 Code of Federal Regulations  
45 parts 25 and 100.

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

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

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

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

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

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

30 19. Machinery or equipment, including related structural components,  
31 that is employed in connection with manufacturing, processing, fabricating,  
32 job printing, refining, mining, natural gas pipelines, metallurgical  
33 operations, telecommunications, producing or transmitting electricity or  
34 research and development and that is used directly to meet or exceed rules or  
35 regulations adopted by the federal energy regulatory commission, the United  
36 States environmental protection agency, the United States nuclear regulatory  
37 commission, the Arizona department of environmental quality or a political  
38 subdivision of this state to prevent, monitor, control or reduce land, water  
39 or air pollution.

40 20. Machinery and equipment that are sold to a person engaged in the  
41 commercial production of livestock, livestock products or agricultural,  
42 horticultural, viticultural or floricultural crops or products in this state  
43 and that are used directly and primarily to prevent, monitor, control or  
44 reduce air, water or land pollution.

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

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

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

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

15           22. Qualifying equipment that is purchased from and after June 30, 2004  
16 through June 30, 2014 by a qualified business under section 41-1516 for  
17 harvesting or the initial processing of qualifying forest products removed  
18 from qualifying projects as defined in section 41-1516. To qualify for this  
19 deduction, the qualified business at the time of purchase must present its  
20 certification approved by the department.

21           23. Machinery, equipment and other tangible personal property used  
22 directly in motion picture production by a motion picture production  
23 company. To qualify for this deduction, at the time of purchase, the motion  
24 picture production company must present to the retailer its certificate that  
25 is issued pursuant to section 42-5009, subsection H and that establishes its  
26 qualification for the deduction.

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

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

33           2. Janitorial equipment and hand tools.

34           3. Office equipment, furniture and supplies.

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

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

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

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

1           D. In addition to the deductions from the tax base prescribed by  
2 subsection A of this section, there shall be deducted from the tax base the  
3 gross proceeds of sales or gross income derived from sales of machinery,  
4 equipment, materials and other tangible personal property used directly and  
5 predominantly to construct a qualified environmental technology  
6 manufacturing, producing or processing facility as described in section  
7 41-1514.02. This subsection applies for ten full consecutive calendar or  
8 fiscal years after the start of initial construction.

9           E. In computing the tax base, gross proceeds of sales or gross income  
10 from retail sales of heavy trucks and trailers does not include any amount  
11 attributable to federal excise taxes imposed by 26 United States Code section  
12 4051.

13           F. In computing the tax base, gross proceeds of sales or gross income  
14 from the sale of use fuel, as defined in section 28-5601, does not include  
15 any amount attributable to federal excise taxes imposed by 26 United States  
16 Code section 4091.

17           G. If a person is engaged in an occupation or business to which  
18 subsection A of this section applies, the person's books shall be kept so as  
19 to show separately the gross proceeds of sales of tangible personal property  
20 and the gross income from sales of services, and if not so kept the tax shall  
21 be imposed on the total of the person's gross proceeds of sales of tangible  
22 personal property and gross income from services.

23           H. If a person is engaged in the business of selling tangible personal  
24 property at both wholesale and retail, the tax under this section applies  
25 only to the gross proceeds of the sales made other than at wholesale if the  
26 person's books are kept so as to show separately the gross proceeds of sales  
27 of each class, and if the books are not so kept, the tax under this section  
28 applies to the gross proceeds of every sale so made.

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

- 37           1. Transporting classification.
- 38           2. Utilities classification.
- 39           3. Telecommunications classification.
- 40           4. Pipeline classification.
- 41           5. Private car line classification.
- 42           6. Publication classification.
- 43           7. Job printing classification.
- 44           8. Prime contracting classification.
- 45           9. Owner builder sales classification.

1           10. Restaurant classification.  
2           J. The gross proceeds of sales or gross income derived from the  
3 following shall be deducted from the tax base for the retail classification:  
4           1. Sales made directly to the United States government or its  
5 departments or agencies by a manufacturer, modifier, assembler or repairer.  
6           2. Sales made directly to a manufacturer, modifier, assembler or  
7 repairer if such sales are of any ingredient or component part of products  
8 sold directly to the United States government or its departments or agencies  
9 by the manufacturer, modifier, assembler or repairer.  
10          3. Overhead materials or other tangible personal property that is used  
11 in performing a contract between the United States government and a  
12 manufacturer, modifier, assembler or repairer, including property used in  
13 performing a subcontract with a government contractor who is a manufacturer,  
14 modifier, assembler or repairer, to which title passes to the government  
15 under the terms of the contract or subcontract.  
16          4. Sales of overhead materials or other tangible personal property to  
17 a manufacturer, modifier, assembler or repairer if the gross proceeds of  
18 sales or gross income derived from the property by the manufacturer,  
19 modifier, assembler or repairer will be exempt under paragraph 3 of this  
20 subsection.  
21          K. There shall be deducted from the tax base fifty per cent of the  
22 gross proceeds or gross income from any sale of tangible personal property  
23 made directly to the United States government or its departments or agencies,  
24 which is not deducted under subsection J of this section.  
25          L. The department shall require every person claiming a deduction  
26 provided by subsection J or K of this section to file on forms prescribed by  
27 the department at such times as the department directs a sworn statement  
28 disclosing the name of the purchaser and the exact amount of sales on which  
29 the exclusion or deduction is claimed.  
30          M. In computing the tax base, gross proceeds of sales or gross income  
31 does not include:  
32           1. A manufacturer's cash rebate on the sales price of a motor vehicle  
33 if the buyer assigns the buyer's right in the rebate to the retailer.  
34           2. The waste tire disposal fee imposed pursuant to section 44-1302.  
35          N. There shall be deducted from the tax base the amount received from  
36 sales of solar energy devices.  ~~, but the deduction shall not exceed five~~  
37  ~~thousand dollars for each solar energy device. Before deducting any amount~~  
38  ~~under this subsection.~~ The retailer shall register with the department as a  
39 solar energy retailer. By registering, the retailer acknowledges that it  
40 will make its books and records relating to sales of solar energy devices  
41 available to the department for examination.  
42          O. In computing the tax base in the case of the sale or transfer of  
43 wireless telecommunications equipment as an inducement to a customer to enter  
44 into or continue a contract for telecommunications services that are taxable  
45 under section 42-5064, gross proceeds of sales or gross income does not

1 include any sales commissions or other compensation received by the retailer  
2 as a result of the customer entering into or continuing a contract for the  
3 telecommunications services.

4 P. For the purposes of this section, a sale of wireless  
5 telecommunications equipment to a person who holds the equipment for sale or  
6 transfer to a customer as an inducement to enter into or continue a contract  
7 for telecommunications services that are taxable under section 42-5064 is  
8 considered to be a sale for resale in the regular course of business.

9 Q. Retail sales of prepaid calling cards or prepaid authorization  
10 numbers for telecommunications services, including sales of reauthorization  
11 of a prepaid card or authorization number, are subject to tax under this  
12 section.

13 R. For the purposes of this section, the diversion of gas from a  
14 pipeline by a person engaged in the business of operating a natural or  
15 artificial gas pipeline, for the sole purpose of fueling compressor equipment  
16 to pressurize the pipeline, is not a sale of the gas to the operator of the  
17 pipeline.

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

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

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

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

41 U. In computing the tax base for the sale of a motor vehicle to a  
42 nonresident of this state, if the purchaser's state of residence allows a  
43 corresponding use tax exemption to the tax imposed by article 1 of this  
44 chapter and the rate of the tax in the purchaser's state of residence is  
45 lower than the rate prescribed in article 1 of this chapter, and the

1 nonresident has secured a special ninety day nonresident registration permit  
2 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall  
3 be deducted from the tax base a portion of the gross proceeds or gross income  
4 from the sale so that the amount of transaction privilege tax that is paid in  
5 this state is equal to the excise tax that is imposed by the purchaser's  
6 state of residence on the nonexempt sale or use of the motor vehicle.

7 V. For the purposes of this section:

8 1. "Aircraft" includes:

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

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

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

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

23 W. For the purposes of subsection J of this section:

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

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

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

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

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

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

1 obligation under one or more government contracts is performed, undertaken or  
2 assumed and that includes provisions causing title to overhead materials or  
3 other tangible personal property used in the performance of the subcontract  
4 to pass to the government or that includes provisions incorporating such  
5 title passing clauses in a government contract into the subcontract.

6 Sec. 3. Section 42-5075, Arizona Revised Statutes, is amended to read:  
7 42-5075. Prime contracting classification; exemptions;  
8 definitions

9 A. The prime contracting classification is comprised of the business  
10 of prime contracting and dealership of manufactured buildings. The sale of a  
11 used manufactured building is not taxable under this chapter.

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

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

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

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

27 4. The gross proceeds of sales or gross income received from a  
28 contract entered into for the construction, alteration, repair, addition,  
29 subtraction, improvement, movement, wrecking or demolition of any building,  
30 highway, road, railroad, excavation, manufactured building or other  
31 structure, project, development or improvement located in a military reuse  
32 zone for providing aviation or aerospace services or for a manufacturer,  
33 assembler or fabricator of aviation or aerospace products within an active  
34 military reuse zone after the zone is initially established or renewed under  
35 section 41-1531. To be eligible to qualify for this deduction, before  
36 beginning work under the contract, the prime contractor must have applied for  
37 a letter of qualification from the department of revenue.

38 5. The gross proceeds of sales or gross income derived from a contract  
39 to construct a qualified environmental technology manufacturing, producing or  
40 processing facility, as described in section 41-1514.02, and from subsequent  
41 construction and installation contracts that begin within ten years after the  
42 start of initial construction. To qualify for this deduction, before  
43 beginning work under the contract the prime contractor must obtain a letter  
44 of qualification from the department of revenue. This paragraph shall apply

1 for ten full consecutive calendar or fiscal years after the start of initial  
2 construction.

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

13 (a) Actions to monitor, assess and evaluate such a release or a  
14 suspected release.

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

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

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

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

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

32 7. The gross proceeds of sales or gross income that is derived from a  
33 contract entered into for the installation, assembly, repair or maintenance  
34 of machinery, equipment or other tangible personal property that is deducted  
35 from the tax base of the retail classification pursuant to section 42-5061,  
36 subsection B, or that is exempt from use tax pursuant to section 42-5159,  
37 subsection B, and that does not become a permanent attachment to a building,  
38 highway, road, railroad, excavation or manufactured building or other  
39 structure, project, development or improvement. If the ownership of the  
40 realty is separate from the ownership of the machinery, equipment or tangible  
41 personal property, the determination as to permanent attachment shall be made  
42 as if the ownership were the same. The deduction provided in this paragraph  
43 does not include gross proceeds of sales or gross income from that portion of  
44 any contracting activity which consists of the development of, or  
45 modification to, real property in order to facilitate the installation,

1 assembly, repair, maintenance or removal of machinery, equipment or other  
2 tangible personal property that is deducted from the tax base of the retail  
3 classification pursuant to section 42-5061, subsection B or that is exempt  
4 from use tax pursuant to section 42-5159, subsection B. For the purposes of  
5 this paragraph, "permanent attachment" means at least one of the following:

- 6 (a) To be incorporated into real property.
- 7 (b) To become so affixed to real property that it becomes a part of  
8 the real property.
- 9 (c) To be so attached to real property that removal would cause  
10 substantial damage to the real property from which it is removed.

11 8. The gross proceeds of sales or gross income received from a  
12 contract for constructing any lake facility development in a commercial  
13 enhancement reuse district that is designated pursuant to section 9-499.08 if  
14 the prime contractor maintains the following records in a form satisfactory  
15 to the department and to the city or town in which the property is located:

- 16 (a) The certificate of qualification of the lake facility development  
17 issued by the city or town pursuant to section 9-499.08, subsection D.
- 18 (b) All state and local transaction privilege tax returns for the  
19 period of time during which the prime contractor received gross proceeds of  
20 sales or gross income from a contract to construct a lake facility  
21 development in a designated commercial enhancement reuse district, showing  
22 the amount exempted from state and local taxation.
- 23 (c) Any other information that the department considers to be  
24 necessary.

25 9. The gross proceeds of sales or gross income attributable to the  
26 purchase of machinery, equipment or other tangible personal property that is  
27 exempt from or deductible from transaction privilege and use tax under:

- 28 (a) Section 42-5061, subsection A, paragraph 25 or 29.
- 29 (b) Section 42-5061, subsection B.
- 30 (c) Section 42-5159, subsection A, paragraph 13, subdivision (a), (b),  
31 (c), (d), (e), (f), (i), (j) or (l).
- 32 (d) Section 42-5159, subsection B.

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

37 11. The gross proceeds of sales or gross income that is derived from a  
38 contract entered into with a person who is engaged in the commercial  
39 production of livestock, livestock products or agricultural, horticultural,  
40 viticultural or floricultural crops or products in this state for the  
41 construction, alteration, repair, improvement, movement, wrecking or  
42 demolition or addition to or subtraction from any building, highway, road,  
43 excavation, manufactured building or other structure, project, development or  
44 improvement used directly and primarily to prevent, monitor, control or  
45 reduce air, water or land pollution.

1           12. The gross proceeds of sales or gross income that is derived from  
2 the installation, assembly, repair or maintenance of clean rooms that are  
3 deducted from the tax base of the retail classification pursuant to section  
4 42-5061, subsection B, paragraph 17.

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

11           14. For taxable periods beginning from and after December 31, 1996 and  
12 ending before January 1, 2011, the gross proceeds of sales or gross income  
13 derived from a contract to provide and install a solar energy device. ~~The~~  
14 ~~deduction shall not exceed five thousand dollars for each contract. Before~~  
15 ~~deducting any amount under this paragraph,~~ The contractor shall register with  
16 the department as a solar energy contractor. By registering, the contractor  
17 acknowledges that it will make its books and records relating to sales of  
18 solar energy devices available to the department for examination.

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

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

26           17. The gross proceeds of sales or gross income derived from contracts  
27 to perform postconstruction treatment of real property for termite and  
28 general pest control, including wood destroying organisms.

29           18. The gross proceeds of sales or gross income received from contracts  
30 entered into before July 1, 2006 for constructing a state university research  
31 infrastructure project if the project has been reviewed by the joint  
32 committee on capital review before the university enters into the  
33 construction contract for the project. For the purposes of this paragraph,  
34 "research infrastructure" has the same meaning prescribed in section 15-1670.

35           19. The gross proceeds of sales or gross income received from a  
36 contract for the construction of any building, or other structure, project,  
37 development or improvement owned by a qualified business under section  
38 41-1516 for harvesting or the initial processing of qualifying forest  
39 products removed from qualifying projects as defined in section 41-1516 if  
40 actual construction begins before January 1, 2010. To qualify for this  
41 deduction, the prime contractor must obtain a letter of qualification from  
42 the department of commerce before beginning work under the contract.

43           20. The gross proceeds of sales or gross income received from a  
44 contract for the construction of any building or other structure associated  
45 with motion picture production in this state. To qualify for the deduction,

1 at the time the contract is entered into the motion picture production  
2 company must present to the prime contractor its certificate that is issued  
3 pursuant to section 42-5009, subsection H and that establishes its  
4 qualification for the deduction.

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

7 1. A prime contractor may establish entitlement to the deduction by  
8 both:

9 (a) Marking the invoice for the transaction to indicate that the gross  
10 proceeds of sales or gross income derived from the transaction was deducted  
11 from the base.

12 (b) Obtaining a certificate executed by the purchaser indicating the  
13 name and address of the purchaser, the precise nature of the business of the  
14 purchaser, the purpose for which the purchase was made, the necessary facts  
15 to establish the deductibility of the property under section 42-5061,  
16 subsection B, and a certification that the person executing the certificate  
17 is authorized to do so on behalf of the purchaser. The certificate may be  
18 disregarded if the prime contractor has reason to believe that the  
19 information contained in the certificate is not accurate or complete.

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

23 3. The department may prescribe a form for the certificate described  
24 in paragraph 1, subdivision (b) of this subsection. The department may also  
25 adopt rules that describe the transactions with respect to which a person is  
26 not entitled to rely solely on the information contained in the certificate  
27 provided in paragraph 1, subdivision (b) of this subsection but must instead  
28 obtain such additional information as required in order to be entitled to the  
29 deduction.

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

1 D. Subcontractors or others who perform services in respect to any  
2 improvement, building, highway, road, railroad, excavation, manufactured  
3 building or other structure, project, development or improvement are not  
4 subject to tax if they can demonstrate that the job was within the control of  
5 a prime contractor or contractors or a dealership of manufactured buildings  
6 and that the prime contractor or dealership is liable for the tax on the  
7 gross income, gross proceeds of sales or gross receipts attributable to the  
8 job and from which the subcontractors or others were paid.

9 E. Amounts received by a contractor for a project are excluded from  
10 the contractor's gross proceeds of sales or gross income derived from the  
11 business if the person who hired the contractor executes and provides a  
12 certificate to the contractor stating that the person providing the  
13 certificate is a prime contractor and is liable for the tax under article 1  
14 of this chapter. The department shall prescribe the form of the certificate.  
15 If the contractor has reason to believe that the information contained on the  
16 certificate is erroneous or incomplete, the department may disregard the  
17 certificate. If the person who provides the certificate is not liable for  
18 the tax as a prime contractor, that person is nevertheless deemed to be the  
19 prime contractor in lieu of the contractor and is subject to the tax under  
20 this section on the gross receipts or gross proceeds received by the  
21 contractor.

22 F. Every person engaging or continuing in this state in the business  
23 of prime contracting or dealership of manufactured buildings shall present to  
24 the purchaser of such prime contracting or manufactured building a written  
25 receipt of the gross income or gross proceeds of sales from such activity and  
26 shall separately state the taxes to be paid pursuant to this section.

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

33 H. The gross proceeds of sales or gross income derived from a contract  
34 for lawn maintenance services are not subject to tax under this section if  
35 the contract does not include landscaping activities. Lawn maintenance  
36 service is a service pursuant to section 42-5061, subsection A, paragraph 1,  
37 and includes lawn mowing and edging, weeding, repairing sprinkler heads or  
38 drip irrigation heads, seasonal replacement of flowers, refreshing gravel,  
39 lawn de-thatching, seeding winter lawns, leaf and debris collection and  
40 removal, tree or shrub pruning or clipping, garden and gravel raking and  
41 applying pesticides, as defined in section 3-361, and fertilizer materials,  
42 as defined in section 3-262.

43 I. The gross proceeds of sales or gross income derived from  
44 landscaping activities are subject to tax under this section. Landscaping  
45 includes installing lawns, grading or leveling ground, installing gravel or

1 boulders, planting trees and other plants, felling trees, removing or  
2 mulching tree stumps, removing other imbedded plants, building or modifying  
3 irrigation berms, repairing sprinkler or watering systems, installing  
4 railroad ties and installing underground sprinkler or watering systems.

5 J. The portion of gross proceeds of sales or gross income attributable  
6 to the actual direct costs of providing architectural or engineering services  
7 that are incorporated in a contract is not subject to tax under this  
8 section. For the purposes of this subsection, "direct costs" means the  
9 portion of the actual costs that are directly expended in providing  
10 architectural or engineering services.

11 K. For the purposes of this section:

12 1. "Contracting" means engaging in business as a contractor.

13 2. "Contractor" is synonymous with the term "builder" and means any  
14 person, firm, partnership, corporation, association or other organization, or  
15 a combination of any of them, that undertakes to or offers to undertake to,  
16 or purports to have the capacity to undertake to, or submits a bid to, or  
17 does personally or by or through others, construct, alter, repair, add to,  
18 subtract from, improve, move, wreck or demolish any building, highway, road,  
19 railroad, excavation, manufactured building or other structure, project,  
20 development or improvement, or to do any part of such a project, including  
21 the erection of scaffolding or other structure or works in connection with  
22 such a project, and includes subcontractors and specialty contractors. For  
23 all purposes of taxation or deduction, this definition shall govern without  
24 regard to whether or not such contractor is acting in fulfillment of a  
25 contract.

26 3. "Dealership of manufactured buildings" means a dealer who either:

27 (a) Is licensed pursuant to title 41, chapter 16 and who sells at  
28 retail manufactured buildings.

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

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

35 5. "Prime contracting" means engaging in business as a prime  
36 contractor.

37 6. "Prime contractor" means a contractor who supervises, performs or  
38 coordinates the construction, alteration, repair, addition, subtraction,  
39 improvement, movement, wreckage or demolition of any building, highway, road,  
40 railroad, excavation, manufactured building or other structure, project,  
41 development or improvement including the contracting, if any, with any  
42 subcontractors or specialty contractors and who is responsible for the  
43 completion of the contract.

44 7. "Sale of a used manufactured building" does not include a lease of  
45 a used manufactured building.

1           Sec. 4. Section 42-11054, Arizona Revised Statutes, is amended to  
2 read:

3           42-11054. Standard appraisal methods and techniques

4           A. The department shall:

5           1. Prescribe guidelines for applying standard appraisal methods and  
6 techniques that shall be used by the department and county assessors in  
7 determining the valuation of property.

8           2. Prepare and maintain manuals and other necessary guidelines,  
9 consistent with this section, reflecting the standard methods and techniques  
10 to perpetuate a current inventory of taxable property and the valuation of  
11 that property.

12           B. In applying prescribed standard appraisal methods and  
13 techniques: ~~;~~

14           1. Current usage shall be included in the formula for reaching a  
15 determination of full cash value.

16           2. SOLAR ENERGY DEVICES, AS DEFINED IN SECTION 44-1761, AND ANY OTHER  
17 DEVICE OR SYSTEM DESIGNED FOR THE PRODUCTION OF SOLAR ENERGY FOR ON-SITE  
18 CONSUMPTION ARE CONSIDERED TO ADD NO VALUE TO THE PROPERTY.

19           C. If the methods and techniques prescribe using market data as an  
20 indication of market value, the price paid for future anticipated property  
21 value increments shall be excluded.

22           ~~C.~~ D. For purposes of determining full cash value the department and  
23 county assessors shall use and apply the ratio standard guidelines issued by  
24 the department for tax year 1993 in the same manner as they were applied in  
25 tax year 1993. This subsection does not apply to property that is valued  
26 according to prescribed statutory methods or to property for which values are  
27 determined in the year after an appeal pursuant to section 42-16002.

28           Sec. 5. Section 43-222, Arizona Revised Statutes, as amended by Laws  
29 2005, chapter 12, section 1, chapter 264, section 1, chapter 316, section 2  
30 and chapter 317, section 10, is amended to read:

31           43-222. Income tax credit review schedule

32           Each year the joint legislative income tax credit review committee  
33 shall review the following income tax credits:

34           1. In 2005, sections 43-1087, 43-1088 and 43-1175.

35           2. In 2006, sections 43-1073, 43-1089, 43-1089.01, 43-1089.02,  
36 43-1090, 43-1176 and 43-1181.

37           3. In 2007, sections 43-1077, 43-1078, 43-1079, 43-1080, 43-1165,  
38 43-1166, 43-1167 and 43-1169.

39           4. In 2008, sections 43-1074.01, 43-1081, 43-1168, 43-1170 and  
40 43-1178.

41           5. In 2009, sections 43-1076, 43-1081.01, ~~43-1083~~, 43-1084, 43-1162  
42 and 43-1170.01.

43           6. In 2010, sections 43-1075, ~~and 43-1163~~.

44           ~~7. In 2010, sections~~ 43-1079.01, ~~and 43-1090.01~~, 43-1163, 43-1167.01  
45 ~~AND 43-1182~~.

1           ~~8-~~ 7. In 2011, ~~section~~ SECTIONS 43-1074.02, 43-1083, 43-1085 AND  
2 43-1164.

3           Sec. 6. Repeal

4           Section 43-222, Arizona Revised Statutes, as amended by Laws 2005,  
5 chapter 292, section 1, is repealed.

6           Sec. 7. Section 43-1083, Arizona Revised Statutes, is amended to read:  
7 43-1083. Credit for solar energy devices; residential  
8 applications

9           A. FOR TAXABLE YEARS THROUGH DECEMBER 31, 2012, a credit is allowed  
10 against the taxes imposed by this title for each resident who is not a  
11 dependent of another taxpayer for installing a solar energy device, as  
12 defined in section 42-5001, during the taxable year in the taxpayer's  
13 residence located in this state. The credit is equal to twenty-five per cent  
14 of the cost of the device.

15           B. The maximum credit in a taxable year may not exceed ~~one~~ TWO  
16 thousand dollars. The person who provides the solar energy device shall  
17 furnish the taxpayer with an accounting of the cost to the taxpayer. A  
18 taxpayer ~~may claim the credit under this section only once in a tax year and~~  
19 may not cumulate ~~over different tax years~~ TOTAL tax credits under this  
20 section exceeding, in the aggregate, ~~one~~ FIVE thousand dollars for the same  
21 residence.

22           C. If the allowable tax credit exceeds the taxes otherwise due under  
23 this title on the claimant's income, or if there are no taxes due under this  
24 title, the amount of the claim not used to offset taxes under this title may  
25 be carried forward for not more than five consecutive taxable years as a  
26 credit against subsequent years' income tax liability.

27           D. A husband and wife who file separate returns for a taxable year in  
28 which they could have filed a joint return may each claim only one-half of  
29 the tax credit that would have been allowed for a joint return.

30           E. The credit allowed under this section is in lieu of any allowance  
31 for state tax purposes for exhaustion, wear and tear of the solar energy  
32 device under section 167 of the internal revenue code.

33           F. To qualify for the credit under this section the solar energy  
34 device and its installation shall meet the requirements of title 44, chapter  
35 11, article 11.

36           G. A solar hot water heater plumbing stub out that was installed by  
37 the builder of a house or dwelling unit before title was conveyed to the  
38 taxpayer does not qualify for a credit under this section, but the taxpayer  
39 may claim a credit for the device under section 43-1090 or 43-1176 under the  
40 circumstances, conditions and limitations prescribed by section 43-1090,  
41 subsection C or 43-1176, subsection C, as applicable.



1 E. IF THE ALLOWABLE CREDIT EXCEEDS THE TAXES OTHERWISE DUE UNDER THIS  
2 TITLE ON THE CLAIMANT'S INCOME, OR IF THERE ARE NO TAXES DUE UNDER THIS  
3 TITLE, THE AMOUNT OF THE CLAIM NOT USED TO OFFSET TAXES UNDER THIS TITLE MAY  
4 BE CARRIED FORWARD FOR NOT MORE THAN FIVE CONSECUTIVE TAXABLE YEARS AS A  
5 CREDIT AGAINST SUBSEQUENT YEARS' INCOME TAX LIABILITY.

6 F. CO-OWNERS OF A BUSINESS, INCLUDING CORPORATE PARTNERS IN A  
7 PARTNERSHIP, MAY EACH CLAIM ONLY THE PRO RATA SHARE OF THE CREDIT ALLOWED  
8 UNDER THIS SECTION BASED ON THE OWNERSHIP INTEREST OR FINANCIAL INVESTMENT IN  
9 THE SYSTEM. THE TOTAL OF THE CREDITS ALLOWED ALL SUCH OWNERS MAY NOT EXCEED  
10 THE AMOUNT THAT WOULD HAVE BEEN ALLOWED A SOLE OWNER.

11 Sec. 10. Purpose

12 Pursuant to section 43-223, paragraph 2, Arizona Revised Statutes, the  
13 objective of the income tax credits enacted in sections 43-1085 and 43-1164,  
14 Arizona Revised Statutes, is to stimulate the production and use of solar  
15 energy in commercial and industrial applications in this state by subsidizing  
16 the initial cost of solar energy equipment purchased and installed for those  
17 purposes.

18 Sec. 11. Retroactivity

19 Section 43-1083, Arizona Revised Statutes, as amended by this act, and  
20 sections 43-1085 and 43-1164, Arizona Revised Statutes, as added by this act,  
21 apply retroactively to taxable years beginning from and after December 31,  
22 2005.