

State of Arizona  
Senate  
Forty-seventh Legislature  
Second Regular Session  
2006

# SENATE BILL 1002

AN ACT

AMENDING SECTIONS 42-5063 AND 42-5159, ARIZONA REVISED STATUTES; RELATING TO  
EXCISE TAXES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5063, Arizona Revised Statutes, is amended to  
3 read:

4 42-5063. Utilities classification; definitions

5 A. The utilities classification is comprised of the business of:

6 1. Producing and furnishing or furnishing to consumers natural or  
7 artificial gas and water.

8 2. Providing to retail electric customers ancillary services, electric  
9 distribution services, electric generation services, electric transmission  
10 services and other services related to providing electricity.

11 B. The ~~utility~~ UTILITIES classification does not include:

12 1. Sales of ancillary services, electric distribution services,  
13 electric generation services, electric transmission services and other  
14 services related to providing electricity, gas or water to a person who  
15 resells the services.

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

18 3. Sales of alternative fuel, as defined in section 1-215, to a used  
19 oil fuel burner who has received a permit to burn used oil or used oil fuel  
20 under section 49-426 or 49-480.

21 4. Sales of ancillary services, electric distribution services,  
22 electric generation services, electric transmission services and other  
23 services that are related to providing electricity to a retail electric  
24 customer who is located outside this state for use outside this state if the  
25 electricity is delivered to a point of sale outside this state.

26 C. The tax base for the utilities classification is the gross proceeds  
27 of sales or gross income derived from the business, but the following shall  
28 be deducted from the tax base:

29 1. Revenues received by a municipally owned utility in the form of  
30 fees charged to persons constructing residential, commercial or industrial  
31 developments or connecting residential, commercial or industrial developments  
32 to a municipal utility system or systems if the fees are segregated and used  
33 only for capital expansion, system enlargement or debt service of the utility  
34 system or systems.

35 2. Revenues received by any person or persons owning a utility system  
36 in the form of reimbursement or contribution compensation for property and  
37 equipment installed to provide utility access to, on or across the land of an  
38 actual utility consumer if the property and equipment become the property of  
39 the utility. This deduction shall not exceed the value of such property and  
40 equipment.

41 3. Gross proceeds of sales or gross income derived from sales to:

42 (a) Qualifying hospitals as defined in section 42-5001.

43 (b) A qualifying health care organization as defined in section  
44 42-5001 if the tangible personal property is used by the organization solely  
45 to provide health and medical related educational and charitable services.

1 (c) RESIDENTIAL RETAIL CUSTOMERS.

2 4. The portion of gross proceeds of sales or gross income that is  
3 derived from sales to ~~an~~ A QUALIFIED environmental technology manufacturer,  
4 producer or processor as defined in section 41-1514.02 of a utility product  
5 and that is used directly in environmental technology manufacturing,  
6 producing or processing. 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~~ A QUALIFIED  
9 environmental technology manufacturer, producer or processor who does not  
10 manufacture paper, the time period shall begin with the date the first  
11 manufacturing, processing or production equipment is placed in service.

12 D. For THE purposes of this section:

13 1. "Ancillary services" means those services so designated in federal  
14 energy regulatory commission order 888 adopted in 1996 that include the  
15 services necessary to support the transmission of electricity from resources  
16 to loads while maintaining reliable operation of the transmission system  
17 according to good utility practice.

18 2. "Electric distribution service" means distributing electricity to  
19 retail electric customers through the use of electric distribution  
20 facilities.

21 3. "Electric generation service" means providing electricity for sale  
22 to retail electric customers but excluding electric distribution or  
23 transmission services.

24 4. "Electric transmission service" means transmitting electricity to  
25 retail electric customers or to electric distribution facilities so  
26 classified by the federal energy regulatory commission or, to the extent  
27 permitted by law, so classified by the Arizona corporation commission.

28 5. "Other services" includes metering, meter reading services, billing  
29 and collecting services.

30 6. "Retail electric customer" means a person who purchases electricity  
31 for that person's own use, including use in that person's trade or business  
32 and not for resale, redistribution or retransmission.

33 Sec. 2. Section 42-5159, Arizona Revised Statutes, is amended to read:

34 42-5159. Exemptions

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

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

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

1 imposed by this article, the tax imposed by this article is reduced by the  
2 amount of the tax already imposed by the other state.

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

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

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

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

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

29 8. Livestock, poultry, supplies, feed, salts, vitamins and other  
30 additives for use or consumption in the businesses of farming, ranching and  
31 feeding livestock or poultry, not including fertilizers, herbicides and  
32 insecticides. For the purposes of this paragraph, "poultry" includes  
33 ratites.

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

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

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

44 12. Materials that are purchased by or for publicly funded libraries  
45 including school district libraries, charter school libraries, community

1 college libraries, state university libraries or federal, state, county or  
2 municipal libraries for use by the public as follows:

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

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

5 13. Tangible personal property purchased by:

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

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

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

16 (d) A qualifying health care organization, as defined in section  
17 42-5001, if the tangible personal property is used by the organization solely  
18 to provide health and medical related educational and charitable services.

19 (e) A qualifying health care organization as defined in section  
20 42-5001 if the organization is dedicated to providing educational,  
21 therapeutic, rehabilitative and family medical education training for blind,  
22 visually impaired and multihandicapped children from the time of birth to age  
23 twenty-one.

24 (f) A nonprofit charitable organization that has qualified under  
25 section 501(c)(3) of the United States internal revenue code and that engages  
26 in and uses such property exclusively in programs for mentally or physically  
27 handicapped persons if the programs are exclusively for training, job  
28 placement, rehabilitation or testing.

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

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

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

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

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

1 (i) A qualifying community health center as defined in section  
2 42-5001.

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

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

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

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

24 15. Tangible personal property sold by:

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

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

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

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

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

45 18. Prescription eyeglasses and contact lenses.

- 1           19. Insulin, insulin syringes and glucose test strips.
- 2           20. Hearing aids as defined in section 36-1901.
- 3           21. Durable medical equipment which has a centers for medicare and  
4           medicaid services common procedure code, is designated reimbursable by  
5           medicare, is prescribed by a person who is licensed under title 32, chapter  
6           7, 13, 17 or 29, can withstand repeated use, is primarily and customarily  
7           used to serve a medical purpose, is generally not useful to a person in the  
8           absence of illness or injury and is appropriate for use in the home.
- 9           22. Food, as provided in and subject to the conditions of article 3 of  
10          this chapter and section 42-5074.
- 11          23. Items purchased with United States department of agriculture food  
12          stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.  
13          958) or food instruments issued under section 17 of the child nutrition act  
14          (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code  
15          section 1786).
- 16          24. Food and drink provided without monetary charge by a taxpayer which  
17          is subject to section 42-5074 to its employees for their own consumption on  
18          the premises during the employees' hours of employment.
- 19          25. Tangible personal property that is used or consumed in a business  
20          subject to section 42-5074 for human food, drink or condiment, whether  
21          simple, mixed or compounded.
- 22          26. Food, drink or condiment and accessory tangible personal property  
23          if they are to be prepared and served to persons for consumption on the  
24          premises of a public school in a school district during school hours.
- 25          27. Lottery tickets or shares purchased pursuant to title 5, chapter 5,  
26          article 1.
- 27          28. Textbooks, sold by a bookstore, that are required by any state  
28          university or community college.
- 29          29. Magazines, other periodicals or other publications produced by this  
30          state to encourage tourist travel.
- 31          30. Paper machine clothing, such as forming fabrics and dryer felts,  
32          purchased by a paper manufacturer and directly used or consumed in paper  
33          manufacturing.
- 34          31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity  
35          purchased by a qualified environmental technology manufacturer, producer or  
36          processor as defined in section 41-1514.02 and directly used or consumed in  
37          the generation or provision of on-site power or energy solely for  
38          environmental technology manufacturing, producing or processing or  
39          environmental protection. This paragraph shall apply for fifteen full  
40          consecutive calendar or fiscal years from the date the first paper  
41          manufacturing machine is placed in service. In the case of an environmental  
42          technology manufacturer, producer or processor who does not manufacture  
43          paper, the time period shall begin with the date the first manufacturing,  
44          processing or production equipment is placed in service.

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

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

5           (b) Public educational institutions.

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

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

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

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

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

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

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

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

1 under the terms of the contract or subcontract. For the purposes of this  
2 paragraph:

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

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

19 40. Through December 31, 1994, tangible personal property sold pursuant  
20 to a personal property liquidation transaction, as defined in section  
21 42-5061. From and after December 31, 1994, tangible personal property sold  
22 pursuant to a personal property liquidation transaction, as defined in  
23 section 42-5061, if the gross proceeds of the sales were included in the  
24 measure of the tax imposed by article 1 of this chapter or if the personal  
25 property liquidation was a casual activity or transaction.

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

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

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

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

1           45. Gas diverted from a pipeline, by a person engaged in the business  
2 of operating a natural or artificial gas pipeline, and used or consumed for  
3 the sole purpose of fueling compressor equipment that pressurizes the  
4 pipeline.

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

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

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

15           49. LIQUEFIED PETROLEUM GAS THAT IS STORED IN A PORTABLE CONTAINER THAT  
16 IS CONSTRUCTED TO UNITED STATES DEPARTMENT OF TRANSPORTATION SPECIFICATIONS  
17 THAT HAS LESS THAN TWO HUNDRED THIRTY-NINE POUNDS OF WATER CAPACITY AND THAT  
18 IS CAPABLE OF STORING LIQUEFIED PETROLEUM GAS AND USED FOR RESIDENTIAL ENERGY  
19 PURPOSES. FOR THE PURPOSES OF THIS SECTION, "LIQUEFIED PETROLEUM GAS" MEANS  
20 ANY HYDROCARBON OR MIXTURE OF HYDROCARBONS COMPOSED PREDOMINANTLY OF PROPANE,  
21 PROPYLENE, BUTANES, NORMAL BUTANE, ISOBUTANE OR BUTYLENES.

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

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

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

38           3. Tangible personal property sold to persons engaged in business  
39 classified under the telecommunications classification under section 42-5064  
40 and consisting of central office switching equipment, switchboards, private  
41 branch exchange equipment, microwave radio equipment and carrier equipment  
42 including optical fiber, coaxial cable and other transmission media which are  
43 components of carrier systems.

44           4. Machinery, equipment or transmission lines used directly in  
45 producing or transmitting electrical power, but not including distribution.

1 Transformers and control equipment used at transmission substation sites  
2 constitute equipment used in producing or transmitting electrical power.

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

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

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

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

18 (b) Any foreign government for use by such government outside of this  
19 state, or sold to persons who are not residents of this state and who will  
20 not use such property in this state other than in removing such property from  
21 this state.

22 8. Machinery, tools, equipment and related supplies used or consumed  
23 directly in repairing, remodeling or maintaining aircraft, aircraft engines  
24 or aircraft component parts by or on behalf of a certificated or licensed  
25 carrier of persons or property.

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

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

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

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

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

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

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

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

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

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

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

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

39 (a) Any direct broadcast satellite television or data transmission  
40 service that operates pursuant to 47 Code of Federal Regulations parts 25 and  
41 100.

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

44 (i) Over two-thirds of the transmissions, measured in megabytes,  
45 transmitted by the facility during the test period were transmitted to or on

1 behalf of one or more direct broadcast satellite television or data  
2 transmission services that operate pursuant to 47 Code of Federal Regulations  
3 parts 25 and 100.

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

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

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

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

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

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

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

43 20. Machinery and equipment that are used in the commercial production  
44 of livestock, livestock products or agricultural, horticultural, viticultural  
45 or floricultural crops or products in this state and that are used directly

1 and primarily to prevent, monitor, control or reduce air, water or land  
2 pollution.

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

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

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

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

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

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

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

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

35 2. Janitorial equipment and hand tools.

36 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

14           E. The tax levied by this article does not apply to:

15           1. The storage, use or consumption in Arizona of machinery, equipment,  
16 materials or other tangible personal property if used directly and  
17 predominantly to construct a qualified environmental technology  
18 manufacturing, producing or processing facility, as described in section  
19 41-1514.02. This paragraph applies for ten full consecutive calendar or  
20 fiscal years after the start of initial construction.

21           2. The purchase of electricity by a qualified environmental technology  
22 manufacturer, producer or processor as defined in section 41-1514.02 that is  
23 used directly in environmental technology manufacturing, producing or  
24 processing. This paragraph shall apply for fifteen full consecutive calendar  
25 or fiscal years from the date the first paper manufacturing machine is placed  
26 in service. In the case of an environmental technology manufacturer,  
27 producer or processor who does not manufacture paper, the time period shall  
28 begin with the date the first manufacturing, processing or production  
29 equipment is placed in service.

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

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

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

42           G. For the purposes of subsection B of this section:

43           1. "Aircraft" includes:

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

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

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

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

14 Sec. 3. Effective date

15 This act is effective for taxable years from and after December 31,  
16 2006.