

REFERENCE TITLE: sales tax holiday; educational supplies

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

SB 1152

Introduced by
Senators Martin, Chevront, Gould, Hellon; Burns, Flake, Garcia, Harper,
Johnson, Rios, Waring; Representatives Boone, Cajero Bedford, Nichols,
Stump

AN ACT

AMENDING SECTIONS 42-5061, 42-5159 AND 42-6004, 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 SECTIONS 43-1022
AND 43-1042, ARIZONA REVISED STATUTES; AMENDING TITLE 43, CHAPTER 10, ARTICLE
5, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-1089.03; RELATING TO
TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5061, Arizona Revised Statutes, is amended to
3 read:

4 42-5061. Retail classification; definitions

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

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

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

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

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

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

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

27 7. The sale of stocks and bonds.

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

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

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

35 11. Prescription eyeglasses or contact lenses.

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

37 13. Durable medical equipment which has a centers for medicare and
38 medicaid services common procedure code, is designated reimbursable by
39 medicare, is prescribed by a person who is licensed under title 32, chapter
40 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and
41 customarily used to serve a medical purpose, is generally not useful to a
42 person in the absence of illness or injury and is appropriate for use in the
43 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 54. SALES OF SCHOOL ART SUPPLIES, SCHOOL COMPUTER SUPPLIES, SCHOOL
13 INSTRUCTIONAL MATERIALS AND SCHOOL SUPPLIES THAT ARE PURCHASED DURING A
14 PERIOD BEGINNING AT 12:01 A.M. ON AUGUST 1 THROUGH MIDNIGHT ON AUGUST 7 EACH
15 YEAR.

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

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

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

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

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

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

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

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

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

13 (b) Any foreign government for use by such government outside of this
14 state.

15 (c) Persons who are not residents of this state and who will not use
16 such property in this state other than in removing such property from this
17 state. This subdivision also applies to corporations that are not
18 incorporated in this state, regardless of maintaining a place of business in
19 this state, if the principal corporate office is located outside this state
20 and the property will not be used in this state other than in removing the
21 property from 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. Railroad rolling stock, rails, ties and signal control equipment
27 used 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 and equipment which
2 have 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 used directly in the feeding of poultry,
30 the environmental control of housing for poultry, the movement of eggs within
31 a production and packaging facility or the sorting or cooling of eggs. This
32 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 sold to a person engaged in the
44 commercial production of livestock, livestock products or agricultural,
45 horticultural, viticultural or floricultural crops or products in this state

1 and that are used directly and primarily to prevent, monitor, control or
2 reduce air, water or land 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 deduction, the qualified business at the time of purchase must present its
22 certification approved by the department.

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

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

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

10 E. In computing the tax base, gross proceeds of sales or gross income
11 from retail sales of heavy trucks and trailers does not include any amount
12 attributable to federal excise taxes imposed by 26 United States Code section
13 4051.

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

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

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

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

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

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

1 under section 42-5064, gross proceeds of sales or gross income does not
2 include any sales commissions or other compensation received by the retailer
3 as a result of the customer entering into or continuing a contract for the
4 telecommunications services.

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

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

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

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

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

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

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

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

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

8 V. FOR THE PURPOSES OF SUBSECTION A, PARAGRAPH 54 OF THIS SECTION:

9 1. "SCHOOL ART SUPPLIES" MEANS CLAY AND GLAZES, ACRYLIC PAINTS,
10 TEMPORA PAINTS, OIL PAINTS, PAINTBRUSHES FOR ARTWORK, SKETCH AND DRAWING PADS
11 AND WATERCOLORS.

12 2. "SCHOOL COMPUTER SUPPLIES" MEANS THE FOLLOWING ITEMS THAT ARE
13 REQUIRED IN A COURSE OF STUDY IN WHICH A COMPUTER IS USED:

14 (a) COMPUTER STORAGE MEDIA, DISKETTES AND COMPACT DISKS.

15 (b) HANDHELD ELECTRONIC SCHEDULERS, EXCLUDING DEVICES CONTAINING
16 CELLULAR PHONES.

17 (c) PERSONAL DIGITAL ASSISTANTS, EXCLUDING DEVICES CONTAINING CELLULAR
18 PHONES.

19 (d) COMPUTER PRINTERS.

20 (e) PRINTER SUPPLIES FOR COMPUTERS, INCLUDING PAPER AND PRINTER INK.

21 3. "SCHOOL INSTRUCTIONAL MATERIAL" MEANS REFERENCE BOOKS, REFERENCE
22 MAPS AND GLOBES, TEXTBOOKS AND WORKBOOKS. FOR THE PURPOSES OF THIS
23 PARAGRAPH:

24 (a) "TEXTBOOKS":

25 (i) MEANS A PRINTED BOOK THAT CONTAINS SYSTEMATICALLY ORGANIZED
26 EDUCATIONAL INFORMATION THAT COVERS THE PRIMARY OBJECTIVES OF A COURSE OF
27 STUDY.

28 (ii) DOES NOT INCLUDE A BOOK THAT IS PRIMARILY PUBLISHED AND
29 DISTRIBUTED FOR SALE TO THE GENERAL PUBLIC, A COMPUTER OR COMPUTER SOFTWARE.

30 (b) "WORKBOOKS":

31 (i) MEANS A PRINTED BOOKLET THAT CONTAINS PROBLEMS AND EXERCISES IN
32 WHICH A STUDENT MAY DIRECTLY WRITE ANSWERS OR RESPONSES TO THE PROBLEMS OR
33 EXERCISES.

34 (ii) DOES NOT INCLUDE A COMPUTER OR COMPUTER SOFTWARE.

35 4. "SCHOOL SUPPLIES" MEANS BINDERS, BOOK BAGS, CALCULATORS, CELLOPHANE
36 TAPE, BLACKBOARD CHALK, COMPASSES, COMPOSITION BOOKS, CRAYONS, ERASERS,
37 EXPANDABLE FOLDERS, POCKET FOLDERS, PLASTIC FOLDERS, MANILA FOLDERS, GLUE,
38 PASTE, PASTE STICKS, HIGHLIGHTERS, INDEX CARDS, INDEX CARD BOXES, LEGAL PADS,
39 LUNCH BOXES, MARKERS, NOTEBOOKS, LOOSE LEAF RULED NOTEBOOK PAPER, COPY PAPER,
40 GRAPH PAPER, TRACING PAPER, MANILA PAPER, COLORED PAPER, POSTER BOARD,
41 CONSTRUCTION PAPER, PENCILS, PENCIL SHARPENERS, PENCIL BOXES AND OTHER SCHOOL
42 SUPPLY BOXES, PENS, PROTRACTORS, RULERS, SCISSORS AND WRITING TABLETS.

1 ~~V.~~ W. For the purposes of this section:

2 1. "Aircraft" includes:

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

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

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

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

17 ~~W.~~ X. For the purposes of subsection J of this section:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

41 8. Livestock, poultry, supplies, feed, salts, vitamins and other
42 additives for use or consumption in the businesses of farming, ranching and
43 feeding livestock or poultry, not including fertilizers, herbicides and
44 insecticides. For the purposes of this paragraph, "poultry" includes
45 ratites.

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

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

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

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

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

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

17 13. Tangible personal property purchased by:

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

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

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

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

31 (e) A qualifying health care organization as defined in section
32 42-5001 if the organization is dedicated to providing educational,
33 therapeutic, rehabilitative and family medical education training for blind,
34 visually impaired and multihandicapped children from the time of birth to age
35 twenty-one.

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

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

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

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

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

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

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

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

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

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

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

36 15. Tangible personal property sold by:

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

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

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

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

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

13 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

35 26. Food, drink or condiment and accessory tangible personal property
36 if they are to be prepared and served to persons for consumption on the
37 premises of a public school in a school district during school hours.

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

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

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

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

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

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

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

19 (b) Public educational institutions.

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

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

25 34. Machinery, equipment, technology or related supplies that are only
26 useful to assist a person who is physically disabled as defined in section
27 46-191, has a developmental disability as defined in section 36-551 or has a
28 head injury as defined in section 41-3201 to be more independent and
29 functional.

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

43 36. Food, drink and condiment purchased for consumption within the
44 premises of any prison, jail or other institution under the jurisdiction of

1 the state department of corrections, the department of public safety, the
2 department of juvenile corrections or a county sheriff.

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

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

10 39. 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. For the purposes of this
16 paragraph:

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

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

33 40. Through December 31, 1994, tangible personal property sold pursuant
34 to a personal property liquidation transaction, as defined in section
35 42-5061. From and after December 31, 1994, tangible personal property sold
36 pursuant to a personal property liquidation transaction, as defined in
37 section 42-5061, if the gross proceeds of the sales were included in the
38 measure of the tax imposed by article 1 of this chapter or if the personal
39 property liquidation was a casual activity or transaction.

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

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

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

9 44. Alternative fuel vehicles if the vehicle was manufactured as a
10 diesel fuel vehicle and converted to operate on alternative fuel and
11 equipment that is installed in a conventional diesel fuel motor vehicle to
12 convert the vehicle to operate on an alternative fuel, as defined in section
13 1-215.

14 45. Gas diverted from a pipeline, by a person engaged in the business
15 of operating a natural or artificial gas pipeline, and used or consumed for
16 the sole purpose of fueling compressor equipment that pressurizes the
17 pipeline.

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

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

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

28 49. SCHOOL ART SUPPLIES, SCHOOL COMPUTER SUPPLIES, SCHOOL INSTRUCTIONAL
29 MATERIALS AND SCHOOL SUPPLIES THAT ARE PURCHASED DURING A PERIOD BEGINNING AT
30 12:01 A.M. ON AUGUST 1 THROUGH MIDNIGHT ON AUGUST 7 EACH YEAR.

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

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

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

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

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

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

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

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

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

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

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

32 8. Machinery, tools, equipment and related supplies used or consumed
33 directly in repairing, remodeling or maintaining aircraft, aircraft engines
34 or aircraft component parts by or on behalf of a certificated or licensed
35 carrier of persons or property.

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

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

41 11. Buses or other urban mass transit vehicles which are used directly
42 to transport persons or property for hire or pursuant to a governmentally
43 adopted and controlled urban mass transportation program and which are sold
44 to bus companies holding a federal certificate of convenience and necessity
45 or operated by any city, town or other governmental entity or by any person

1 contracting with such governmental entity as part of a governmentally adopted
2 and controlled program to provide urban mass transportation.

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

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

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

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

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

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

35 (a) "Motion picture, multimedia or interactive video production"
36 includes products for theatrical and television release, educational
37 presentations, electronic retailing, documentaries, music videos, industrial
38 films, CD-ROM, video game production, commercial advertising and television
39 episode production and other genres that are introduced through developing
40 technology.

41 (b) "Soundstage complex" means a facility of multiple stages including
42 production offices, construction shops and related areas, prop and costume
43 shops, storage areas, parking for production vehicles and areas that are
44 leased to businesses that complement the production needs and orientation of
45 the overall facility.

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

4 (a) Any direct broadcast satellite television or data transmission
5 service that operates pursuant to 47 Code of Federal Regulations parts 25 and
6 100.

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

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

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

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

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

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

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

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

43 19. Machinery or equipment, including related structural components,
44 that is employed in connection with manufacturing, processing, fabricating,
45 job printing, refining, mining, natural gas pipelines, metallurgical

1 operations, telecommunications, producing or transmitting electricity or
2 research and development and that is used directly to meet or exceed rules or
3 regulations adopted by the federal energy regulatory commission, the United
4 States environmental protection agency, the United States nuclear regulatory
5 commission, the Arizona department of environmental quality or a political
6 subdivision of this state to prevent, monitor, control or reduce land, water
7 or air pollution.

8 20. Machinery and equipment that are used in the commercial production
9 of livestock, livestock products or agricultural, horticultural, viticultural
10 or floricultural crops or products in this state and that are used directly
11 and primarily to prevent, monitor, control or reduce air, water or land
12 pollution.

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

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

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

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

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

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

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

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

45 2. Janitorial equipment and hand tools.

1 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

25 1. The storage, use or consumption in Arizona of machinery, equipment,
26 materials or other tangible personal property if used directly and
27 predominantly to construct a qualified environmental technology
28 manufacturing, producing or processing facility, as described in section
29 41-1514.02. This paragraph applies for ten full consecutive calendar or
30 fiscal years after the start of initial construction.

31 2. The purchase of electricity by a qualified environmental technology
32 manufacturer, producer or processor as defined in section 41-1514.02 that is
33 used directly in environmental technology manufacturing, producing or
34 processing. This paragraph shall apply for fifteen full consecutive calendar
35 or fiscal years from the date the first paper manufacturing machine is placed
36 in service. In the case of an environmental technology manufacturer,
37 producer or processor who does not manufacture paper, the time period shall
38 begin with the date the first manufacturing, processing or production
39 equipment is placed in service.

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

42 1. Fees charged by a municipally owned utility to persons constructing
43 residential, commercial or industrial developments or connecting residential,
44 commercial or industrial developments to a municipal utility system or

1 systems if the fees are segregated and used only for capital expansion,
2 system enlargement or debt service of the utility system or systems.

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

8 G. FOR THE PURPOSES OF SUBSECTION A, PARAGRAPH 49 OF THIS SECTION:

9 1. "SCHOOL ART SUPPLIES" MEANS CLAY AND GLAZES, ACRYLIC PAINTS,
10 TEMPORA PAINTS, OIL PAINTS, PAINTBRUSHES FOR ARTWORK, SKETCH AND DRAWING PADS
11 AND WATERCOLORS.

12 2. "SCHOOL COMPUTER SUPPLIES" MEANS THE FOLLOWING ITEMS THAT ARE
13 REQUIRED IN A COURSE OF STUDY IN WHICH A COMPUTER IS USED:

14 (a) COMPUTER STORAGE MEDIA, DISKETTES AND COMPACT DISKS.

15 (b) HANDHELD ELECTRONIC SCHEDULERS, EXCLUDING DEVICES CONTAINING
16 CELLULAR PHONES.

17 (c) PERSONAL DIGITAL ASSISTANTS, EXCLUDING DEVICES CONTAINING CELLULAR
18 PHONES.

19 (d) COMPUTER PRINTERS.

20 (e) PRINTER SUPPLIES FOR COMPUTERS, INCLUDING PAPER AND PRINTER INK.

21 3. "SCHOOL INSTRUCTIONAL MATERIAL" MEANS REFERENCE BOOKS, REFERENCE
22 MAPS AND GLOBES, TEXTBOOKS AND WORKBOOKS. FOR THE PURPOSES OF THIS
23 PARAGRAPH:

24 (a) "TEXTBOOKS":

25 (i) MEANS A PRINTED BOOK THAT CONTAINS SYSTEMATICALLY ORGANIZED
26 EDUCATIONAL INFORMATION THAT COVERS THE PRIMARY OBJECTIVES OF A COURSE OF
27 STUDY.

28 (ii) DOES NOT INCLUDE A BOOK THAT IS PRIMARILY PUBLISHED AND
29 DISTRIBUTED FOR SALE TO THE GENERAL PUBLIC, A COMPUTER OR COMPUTER SOFTWARE.

30 (b) "WORKBOOKS":

31 (i) MEANS A PRINTED BOOKLET THAT CONTAINS PROBLEMS AND EXERCISES IN
32 WHICH A STUDENT MAY DIRECTLY WRITE ANSWERS OR RESPONSES TO THE PROBLEMS OR
33 EXERCISES.

34 (ii) DOES NOT INCLUDE A COMPUTER OR COMPUTER SOFTWARE.

35 4. "SCHOOL SUPPLIES" MEANS BINDERS, BOOK BAGS, CALCULATORS, CELLOPHANE
36 TAPE, BLACKBOARD CHALK, COMPASSES, COMPOSITION BOOKS, CRAYONS, ERASERS,
37 EXPANDABLE FOLDERS, POCKET FOLDERS, PLASTIC FOLDERS, MANILA FOLDERS, GLUE,
38 PASTE, PASTE STICKS, HIGHLIGHTERS, INDEX CARDS, INDEX CARD BOXES, LEGAL PADS,
39 LUNCH BOXES, MARKERS, NOTEBOOKS, LOOSE LEAF RULED NOTEBOOK PAPER, COPY PAPER,
40 GRAPH PAPER, TRACING PAPER, MANILA PAPER, COLORED PAPER, POSTER BOARD,
41 CONSTRUCTION PAPER, PENCILS, PENCIL SHARPENERS, PENCIL BOXES AND OTHER SCHOOL
42 SUPPLY BOXES, PENS, PROTRACTORS, RULERS, SCISSORS AND WRITING TABLETS.

43 ~~G.~~ H. For the purposes of subsection B of this section:

44 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.~~ I. 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. Section 42-6004, Arizona Revised Statutes, is amended to read:
15 42-6004. Exemption from municipal tax

16 A. A city, town or special taxing district shall not levy a
17 transaction privilege, sales, use or other similar tax on:

18 1. Exhibition events in this state sponsored, conducted or operated by
19 a nonprofit organization that is exempt from taxation under section
20 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the
21 organization is associated with a major league baseball team or a national
22 touring professional golfing association and no part of the organization's
23 net earnings inures to the benefit of any private shareholder or individual.

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

27 3. Sales of warranty or service contracts.

28 4. Sales of motor vehicles to nonresidents of this state for use
29 outside this state if the vendor ships or delivers the motor vehicle to a
30 destination outside this state.

31 5. Interest on finance contracts.

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

33 7. THROUGH DECEMBER 31, 2009, the gross proceeds of sales or gross
34 income received from a contract from constructing any lake facility
35 development in a commercial enhancement reuse district established pursuant
36 to section 9-499.08.

37 8. Sales of food or other items purchased with United States
38 department of agriculture food stamp coupons issued under the food stamp act
39 of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under section
40 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661,
41 section 4302; 42 United States Code section 1786) but may impose such a tax
42 on other sales of food. If a city, town or special taxing district exempts
43 sales of food from its tax or imposes a different transaction privilege rate
44 on the gross proceeds of sales or gross income from sales of food and nonfood

1 items, it shall use the definition of food prescribed by rule adopted by the
2 department pursuant to section 42-5106.

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

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

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

13 10. SALES OF SCHOOL ART SUPPLIES, SCHOOL COMPUTER SUPPLIES, SCHOOL
14 INSTRUCTIONAL MATERIALS AND SCHOOL SUPPLIES THAT ARE PURCHASED DURING A
15 PERIOD BEGINNING AT 12:01 A.M. ON AUGUST 1 THROUGH MIDNIGHT ON AUGUST 7 EACH
16 YEAR. THIS PARAGRAPH DOES NOT APPLY IF THE FOLLOWING OCCUR:

17 (a) THE GOVERNING BODY OF THE CITY, TOWN OR SPECIAL TAXING DISTRICT
18 ADOPTS AN ORDINANCE WITH A TWO-THIRDS MAJORITY VOTE PROVIDING THAT THE CITY,
19 TOWN OR SPECIAL TAXING DISTRICT WILL LEVY A TRANSACTION PRIVILEGE TAX DURING
20 THE FIRST SEVEN DAYS IN AUGUST.

21 (b) THE ELECTORATE IN THE CITY, TOWN OR SPECIAL TAXING DISTRICT ADOPTS
22 AN INITIATIVE OR REFERENDUM PROVIDING THAT THE CITY, TOWN OR SPECIAL TAXING
23 DISTRICT WILL LEVY A TRANSACTION PRIVILEGE TAX DURING THE FIRST SEVEN DAYS IN
24 AUGUST.

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

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

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

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

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

43 4. Incarcerating or detaining in a privately operated prison, jail or
44 detention facility prisoners who are under the jurisdiction of the United

1 States, this state or any other state or a political subdivision of this
2 state or of any other state.

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

5 6. THROUGH DECEMBER 31, 2009, except as provided in section 42-6104, a
6 contract from constructing any lake facility development in a commercial
7 enhancement reuse district established pursuant to section 9-499.08.

8 D. A city, town or other taxing jurisdiction shall not levy a
9 transaction privilege, sales, use, franchise or other similar tax or fee,
10 however denominated, in excess of one-tenth of one per cent of the value of
11 the entire product mined, smelted, extracted, refined, produced or prepared
12 for sale, profit or commercial use, on persons engaged in the business of
13 mineral processing, except to the extent that the tax is computed on the
14 gross proceeds or gross income from sales at retail.

15 E. In computing the tax base, any city, town or other taxing
16 jurisdiction shall not include in the gross proceeds of sales or gross
17 income:

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

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

21 F. FOR THE PURPOSES OF SUBSECTION A, PARAGRAPH 10 OF THIS SECTION:

22 1. "SCHOOL ART SUPPLIES" MEANS CLAY AND GLAZES, ACRYLIC PAINTS,
23 TEMPORA PAINTS, OIL PAINTS, PAINTBRUSHES FOR ARTWORK, SKETCH AND DRAWING PADS
24 AND WATERCOLORS.

25 2. "SCHOOL COMPUTER SUPPLIES" MEANS THE FOLLOWING ITEMS THAT ARE
26 REQUIRED IN A COURSE OF STUDY IN WHICH A COMPUTER IS USED:

27 (a) COMPUTER STORAGE MEDIA, DISKETTES AND COMPACT DISKS.

28 (b) HANDHELD ELECTRONIC SCHEDULERS, EXCLUDING DEVICES CONTAINING
29 CELLULAR PHONES.

30 (c) PERSONAL DIGITAL ASSISTANTS, EXCLUDING DEVICES CONTAINING CELLULAR
31 PHONES.

32 (d) COMPUTER PRINTERS.

33 (e) PRINTER SUPPLIES FOR COMPUTERS, INCLUDING PAPER AND PRINTER INK.

34 3. "SCHOOL INSTRUCTIONAL MATERIAL" MEANS REFERENCE BOOKS, REFERENCE
35 MAPS AND GLOBES, TEXTBOOKS AND WORKBOOKS. FOR THE PURPOSES OF THIS
36 PARAGRAPH:

37 (a) "TEXTBOOKS":

38 (i) MEANS A PRINTED BOOK THAT CONTAINS SYSTEMATICALLY ORGANIZED
39 EDUCATIONAL INFORMATION THAT COVERS THE PRIMARY OBJECTIVES OF A COURSE OF
40 STUDY.

41 (ii) DOES NOT INCLUDE A BOOK THAT IS PRIMARILY PUBLISHED AND
42 DISTRIBUTED FOR SALE TO THE GENERAL PUBLIC, A COMPUTER OR COMPUTER SOFTWARE.

43 (b) "WORKBOOKS":

1 (i) MEANS A PRINTED BOOKLET THAT CONTAINS PROBLEMS AND EXERCISES IN
2 WHICH A STUDENT MAY DIRECTLY WRITE ANSWERS OR RESPONSES TO THE PROBLEMS OR
3 EXERCISES.

4 (ii) DOES NOT INCLUDE A COMPUTER OR COMPUTER SOFTWARE.

5 4. "SCHOOL SUPPLIES" MEANS BINDERS, BOOK BAGS, CALCULATORS, CELLOPHANE
6 TAPE, BLACKBOARD CHALK, COMPASSES, COMPOSITION BOOKS, CRAYONS, ERASERS,
7 EXPANDABLE FOLDERS, POCKET FOLDERS, PLASTIC FOLDERS, MANILA FOLDERS, GLUE,
8 PASTE, PASTE STICKS, HIGHLIGHTERS, INDEX CARDS, INDEX CARD BOXES, LEGAL PADS,
9 LUNCH BOXES, MARKERS, NOTEBOOKS, LOOSE LEAF RULED NOTEBOOK PAPER, COPY PAPER,
10 GRAPH PAPER, TRACING PAPER, MANILA PAPER, COLORED PAPER, POSTER BOARD,
11 CONSTRUCTION PAPER, PENCILS, PENCIL SHARPENERS, PENCIL BOXES AND OTHER SCHOOL
12 SUPPLY BOXES, PENS, PROTRACTORS, RULERS, SCISSORS AND WRITING TABLETS.

13 Sec. 4. Section 43-222, Arizona Revised Statutes, as amended by Laws
14 2005, chapter 12, section 1, chapter 264, section 1, chapter 316, section 2
15 and chapter 317, section 10, is amended to read:

16 43-222. Income tax credit review schedule

17 Each year the joint legislative income tax credit review committee
18 shall review the following income tax credits:

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

20 2. In 2006, sections 43-1073, 43-1089, 43-1089.01, 43-1089.02,
21 43-1090, 43-1176 and 43-1181.

22 3. In 2007, sections 43-1077, 43-1078, 43-1079, 43-1080, 43-1165,
23 43-1166, 43-1167 and 43-1169.

24 4. In 2008, sections 43-1074.01, 43-1081, 43-1168, 43-1170 and
25 43-1178.

26 5. In 2009, sections 43-1076, 43-1081.01, 43-1083, 43-1084, 43-1162
27 and 43-1170.01.

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

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

31 ~~8. 7.~~ In 2011, ~~section~~ SECTIONS 43-1074.02 AND 43-1089.03.

32 Sec. 5. Repeal

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

35 Sec. 6. Section 43-1022, Arizona Revised Statutes, is amended to read:

36 43-1022. Subtractions from Arizona gross income

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

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

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

43 (a) The United States government service retirement and disability
44 fund, retired or retainer pay of the uniformed services of the United States,

1 the United States foreign service retirement and disability system and any
2 other retirement system or plan established by federal law.

3 (b) The Arizona state retirement system, the corrections officer
4 retirement plan, the public safety personnel retirement system, the elected
5 officials' retirement plan, an optional retirement program established by the
6 Arizona board of regents under section 15-1628, an optional retirement
7 program established by a community college district board under section
8 15-1451 or a retirement plan established for employees of a county, city or
9 town in this state.

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

13 4. The amount of any distributions from an individual retirement
14 account as provided for in section 408 of the internal revenue code or from a
15 qualified retirement plan of a self-employed individual as provided for in
16 section 401 of the internal revenue code to the extent that total adjustments
17 made pursuant to this paragraph in all tax years do not exceed the total of
18 all contributions made by the taxpayer to such plans prior to December 31,
19 1975, which were included in computing Arizona taxable income.

20 5. The amount of income on an installment receivable which is
21 recognized pursuant to the internal revenue code and which has already been
22 recognized on the death of the taxpayer for purposes of this title for tax
23 years ending before January 1, 1990.

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

28 7. The amount of any income tax refunds which were received from
29 states other than Arizona and which were included as income in computing
30 federal adjusted gross income.

31 8. Annuity income included in federal adjusted gross income pursuant
32 to section 72 of the internal revenue code if the first payment with respect
33 to such annuity was received prior to December 31, 1978.

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

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

40 11. The amount by which the adjusted basis of property described in
41 this paragraph and computed pursuant to this title and the income tax act of
42 1954, as amended, exceeds the adjusted basis of such property computed
43 pursuant to the internal revenue code. This paragraph shall apply to all
44 property which is held for the production of income and which is sold or

1 otherwise disposed of during the taxable year other than depreciable property
2 used in a trade or business.

3 12. The amount allowed by section 43-1024 for amortization, by a
4 qualified defense contractor certified by the department of commerce under
5 section 41-1508, of a capital investment for private commercial activities.

6 13. The amount of gain included in federal adjusted gross income on the
7 sale or other disposition of a capital investment that a qualified defense
8 contractor has elected to amortize pursuant to section 43-1024.

9 14. The amount allowed by section 43-1025 for contributions during the
10 taxable year of agricultural crops to charitable organizations.

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

17 16. The amount of prizes or winnings less than five thousand dollars in
18 a single taxable year from any of the state lotteries established and
19 operated pursuant to title 5, chapter 5, article 1, except that all such
20 winnings before March 22, 1983, including periodic distributions from such
21 winnings made after March 22, 1983, may be subtracted.

22 17. The amount of exploration expenses that is determined pursuant to
23 section 617 of the internal revenue code, that has been deferred in a taxable
24 year ending before January 1, 1990 and for which a subtraction has not
25 previously been made. The subtraction shall be made on a ratable basis as
26 the units of produced ores or minerals discovered or explored as a result of
27 this exploration are sold.

28 18. The amount included in federal adjusted gross income pursuant to
29 section 86 of the internal revenue code, relating to taxation of social
30 security and railroad retirement benefits.

31 19. To the extent not already excluded from Arizona gross income under
32 section 112 of the internal revenue code, compensation received for active
33 service as a member of the armed forces of the United States for any month
34 during any part of which the member served in a combat zone as determined
35 under section 112 of the internal revenue code or in an area given the same
36 treatment as a combat zone for purposes of section 112 of the internal
37 revenue code.

38 20. The amount of unreimbursed medical and hospital costs, adoption
39 counseling, legal and agency fees and other nonrecurring costs of adoption
40 not to exceed three thousand dollars. In the case of a husband and wife who
41 file separate returns, the subtraction may be taken by either taxpayer or may
42 be divided between them, but the total subtractions allowed both husband and
43 wife shall not exceed three thousand dollars. The subtraction under this
44 paragraph may be taken for the costs that are described in this paragraph and

1 that are incurred in prior years, but the subtraction may be taken only in
2 the year during which the final adoption order is granted.

3 21. The amount authorized by section 43-1027 for the taxable year
4 relating to qualified wood stoves, wood fireplaces or gas fired fireplaces.

5 22. With respect to a medical savings account established pursuant to
6 section 43-1028:

7 (a) An eligible individual may subtract:

8 (i) The amount of contributions made by the individual's employer
9 during the taxable year to the individual's medical savings account pursuant
10 to section 43-1028 to the extent that the employer contributions are included
11 in the individual's federal adjusted gross income.

12 (ii) The amount deposited by the individual in the account during the
13 taxable year to the extent that the individual's contributions are included
14 in the individual's federal adjusted gross income.

15 (b) The individual's employer may subtract the amount of contributions
16 made by the employer to a medical savings account established on the
17 individual's behalf to the extent that the contributions are not deductible
18 under the internal revenue code.

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

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

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

30 26. The amount authorized by section 43-1030 relating to holocaust
31 survivors.

32 27. The amount authorized by section 43-1031 for constructing an energy
33 efficient residence.

34 28. An amount equal to the depreciation allowable pursuant to section
35 167(a) of the internal revenue code for the taxable year computed as if the
36 election described in section 168(k)(2)(C)(iii) of the internal revenue code
37 had been made for each applicable class of property in the year the property
38 was placed in service.

39 29. With respect to property that is sold or otherwise disposed of
40 during the taxable year by a taxpayer that complied with section 43-1021,
41 paragraph 26 with respect to that property, the amount of depreciation that
42 has been allowed pursuant to section 167(a) of the internal revenue code to
43 the extent that the amount has not already reduced Arizona taxable income in
44 the current or prior taxable years.

1 30. With respect to property for which an adjustment was made under
2 section 43-1021, paragraph 27, an amount equal to one-fifth of the amount of
3 the adjustment pursuant to section 43-1021, paragraph 27 in the year in which
4 the amount was adjusted under section 43-1021, paragraph 27 and in each of
5 the following four years.

6 31. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2006, THE
7 AMOUNT OF UNREIMBURSED COSTS THAT ARE PAID BY A QUALIFIED TEACHER FOR
8 EDUCATIONAL SUPPLIES AND MATERIALS USED IN A CLASSROOM IN THIS STATE IN A
9 KINDERGARTEN PROGRAM OR GRADES ONE THROUGH TWELVE AND THAT EXCEED THE AMOUNT
10 SET OFF PURSUANT TO SECTION 43-1089.03. FOR THE PURPOSES OF THIS PARAGRAPH,
11 "EDUCATIONAL SUPPLIES AND MATERIALS" AND "QUALIFIED TEACHER" HAVE THE SAME
12 MEANINGS PRESCRIBED IN SECTION 43-1089.03.

13 Sec. 7. Section 43-1042, Arizona Revised Statutes, is amended to read:
14 43-1042. Itemized deductions

15 A. Except as provided by subsections B, D, ~~and~~ E AND F of this
16 section, at the election of the taxpayer, and in lieu of the standard
17 deduction allowed by section 43-1041, in computing taxable income the
18 taxpayer may take the amount of itemized deductions allowable for the taxable
19 year pursuant to subtitle A, chapter 1, subchapter B, parts VI and VII, but
20 subject to the limitations prescribed by sections 67, 68 and 274, of the
21 internal revenue code.

22 B. In lieu of the amount of the federal itemized deduction for
23 expenses paid for medical care allowed under section 213 of the internal
24 revenue code, the taxpayer may deduct the full amount of such expenses.

25 C. Notwithstanding subsection B of this section, expenses for medical
26 care that are paid or reimbursed from the taxpayer's medical savings account
27 pursuant to section 43-1028 shall not be deducted pursuant to this section.

28 D. A qualified defense contractor that is identified and certified by
29 the department of commerce pursuant to section 41-1508 shall not claim both a
30 deduction as provided by this section and a credit under section 43-1078 with
31 respect to the same property taxes paid.

32 E. A taxpayer shall not claim both a deduction provided by this
33 section and a credit allowed by this title with respect to the same
34 charitable contributions.

35 F. A TAXPAYER SHALL NOT CLAIM A DEDUCTION PROVIDED BY THIS SECTION FOR
36 EDUCATIONAL SUPPLIES OR MATERIALS FOR WHICH THE TAXPAYER CLAIMED A
37 SUBTRACTION UNDER SECTION 43-1022, PARAGRAPH 31 OR AN OFFSET UNDER SECTION
38 43-1089.03.

39 ~~F.~~ G. The taxpayer may add any interest expense paid by the taxpayer
40 for the taxable year that is equal to the amount of federal credit for
41 interest on certain home mortgages allowed by section 25 of the internal
42 revenue code.

1 Sec. 8. Title 43, chapter 10, article 5, Arizona Revised Statutes, is
2 amended by adding section 43-1089.03, to read:

3 43-1089.03. Setoff for educational supplies; definitions

4 A. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2006, A
5 TAXPAYER WHO IS A QUALIFIED TEACHER MAY OFFSET THE TAXES IMPOSED BY THIS
6 TITLE BY THE AMOUNT OF UNREIMBURSED COSTS PAID DURING THE TAXABLE YEAR FOR
7 EDUCATIONAL SUPPLIES AND MATERIALS THAT ARE USED IN A CLASSROOM IN THIS
8 STATE, BUT NOT TO EXCEED TWO HUNDRED FIFTY DOLLARS.

9 B. FOR THE PURPOSES OF THIS SECTION:

10 1. "EDUCATIONAL SUPPLIES AND MATERIALS" MEANS ITEMS THAT ARE ALLOWABLE
11 AS A DEDUCTION UNDER SECTION 162 OF THE INTERNAL REVENUE CODE AND THAT ARE
12 PURCHASED BY A QUALIFIED TEACHER IN CONNECTION WITH BOOKS, SUPPLIES, COMPUTER
13 EQUIPMENT, INCLUDING RELATED SOFTWARE AND SERVICES, AND OTHER EQUIPMENT AND
14 SUPPLEMENTARY MATERIALS USED BY THE TEACHER IN A CLASSROOM LOCATED IN THIS
15 STATE.

16 2. "QUALIFIED TEACHER" MEANS A FULL-TIME TEACHER OF A KINDERGARTEN
17 PROGRAM OR GRADES ONE THROUGH TWELVE IN A CLASSROOM IN THIS STATE.

18 Sec. 9. Purpose

19 Pursuant to section 43-223, Arizona Revised Statutes, the legislature
20 enacts section 43-1089.03, Arizona Revised Statutes, as added by this act, to
21 provide income tax relief for teachers who personally purchase school
22 supplies and materials for use in a classroom in this state.

23 Sec. 10. Legislative intent

24 This legislation provides a transaction privilege tax holiday on the
25 first seven days in August in recognition of the beginning of most school
26 years. The tax holiday will result in lower costs on retail items that
27 parents buy for their children for the upcoming school year. The holiday
28 will also provide lower costs on other retail items and should stimulate
29 business activity on the designated days.