

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

# SENATE BILL 1152

## 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 CLOTHES, SCHOOL COMPUTER  
13 SUPPLIES, COMPUTERS NOT TO EXCEED A COST OF ONE THOUSAND DOLLARS, 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.

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

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

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

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

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

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

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

8           7. Aircraft, navigational and communication instruments and other  
9 accessories and related equipment sold to:

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

16           (b) Any foreign government for use by such government outside of this  
17 state.

18           (c) Persons who are not residents of this state and who will not use  
19 such property in this state other than in removing such property from this  
20 state. This subdivision also applies to corporations that are not  
21 incorporated in this state, regardless of maintaining a place of business in  
22 this state, if the principal corporate office is located outside this state  
23 and the property will not be used in this state other than in removing the  
24 property from this state.

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

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

31           10. Machinery or equipment used directly to drill for oil or gas or  
32 used directly in the process of extracting oil or gas from the earth for  
33 commercial purposes.

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

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

42           13. New machinery and equipment consisting of tractors, tractor-drawn  
43 implements, self-powered implements, machinery and equipment necessary for  
44 extracting milk, and machinery and equipment necessary for cooling milk and  
45 livestock, and drip irrigation lines not already exempt under paragraph 6 of

1 this subsection and that are used for commercial production of agricultural,  
2 horticultural, viticultural and floricultural crops and products in this  
3 state. For the purposes of this paragraph:

4 (a) "New machinery and equipment" means machinery and equipment which  
5 have never been sold at retail except pursuant to leases or rentals which do  
6 not total two years or more.

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

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

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

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

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

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

42 (a) Any direct broadcast satellite television or data transmission  
43 service that operates pursuant to 47 Code of Federal Regulations parts 25 and  
44 100.

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

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

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

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

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

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

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

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

37 19. Machinery or equipment, including related structural components,  
38 that is employed in connection with manufacturing, processing, fabricating,  
39 job printing, refining, mining, natural gas pipelines, metallurgical  
40 operations, telecommunications, producing or transmitting electricity or  
41 research and development and that is used directly to meet or exceed rules or  
42 regulations adopted by the federal energy regulatory commission, the United  
43 States environmental protection agency, the United States nuclear regulatory  
44 commission, the Arizona department of environmental quality or a political

1 subdivision of this state to prevent, monitor, control or reduce land, water  
2 or air pollution.

3 20. Machinery and equipment that are sold to a person engaged in the  
4 commercial production of livestock, livestock products or agricultural,  
5 horticultural, viticultural or floricultural crops or products in this state  
6 and that are used directly and primarily to prevent, monitor, control or  
7 reduce air, water or land pollution.

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

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

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

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

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

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

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

36 1. Expendable materials. For the purposes of this paragraph,  
37 expendable materials do not include any of the categories of tangible  
38 personal property specified in subsection B of this section regardless of the  
39 cost or useful life of that property.

40 2. Janitorial equipment and hand tools.

41 3. Office equipment, furniture and supplies.

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

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

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

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

8           D. In addition to the deductions from the tax base prescribed by  
9 subsection A of this section, there shall be deducted from the tax base the  
10 gross proceeds of sales or gross income derived from sales of machinery,  
11 equipment, materials and other tangible personal property used directly and  
12 predominantly to construct a qualified environmental technology  
13 manufacturing, producing or processing facility as described in section  
14 41-1514.02. This subsection applies for ten full consecutive calendar or  
15 fiscal years after the start of initial construction.

16           E. In computing the tax base, gross proceeds of sales or gross income  
17 from retail sales of heavy trucks and trailers does not include any amount  
18 attributable to federal excise taxes imposed by 26 United States Code section  
19 4051.

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

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

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

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

44           1. Transporting classification.

45           2. Utilities classification.

- 1           3. Telecommunications classification.
- 2           4. Pipeline classification.
- 3           5. Private car line classification.
- 4           6. Publication classification.
- 5           7. Job printing classification.
- 6           8. Prime contracting classification.
- 7           9. Owner builder sales classification.
- 8           10. Restaurant classification.

9           J. The gross proceeds of sales or gross income derived from the  
10 following shall be deducted from the tax base for the retail classification:

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

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

17           3. Overhead materials or other tangible personal property that is used  
18 in performing a contract between the United States government and a  
19 manufacturer, modifier, assembler or repairer, including property used in  
20 performing a subcontract with a government contractor who is a manufacturer,  
21 modifier, assembler or repairer, to which title passes to the government  
22 under the terms of the contract or subcontract.

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

28           K. There shall be deducted from the tax base fifty per cent of the  
29 gross proceeds or gross income from any sale of tangible personal property  
30 made directly to the United States government or its departments or agencies,  
31 which is not deducted under subsection J of this section.

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

37           M. In computing the tax base, gross proceeds of sales or gross income  
38 does not include:

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

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

42           N. There shall be deducted from the tax base the amount received from  
43 sales of solar energy devices, but the deduction shall not exceed five  
44 thousand dollars for each solar energy device. Before deducting any amount  
45 under this subsection, the retailer shall register with the department as a

1 solar energy retailer. By registering, the retailer acknowledges that it  
2 will make its books and records relating to sales of solar energy devices  
3 available to the department for examination.

4 O. In computing the tax base in the case of the sale or transfer of  
5 wireless telecommunications equipment as an inducement to a customer to enter  
6 into or continue a contract for telecommunications services that are taxable  
7 under section 42-5064, gross proceeds of sales or gross income does not  
8 include any sales commissions or other compensation received by the retailer  
9 as a result of the customer entering into or continuing a contract for the  
10 telecommunications services.

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

16 Q. Retail sales of prepaid calling cards or prepaid authorization  
17 numbers for telecommunications services, including sales of reauthorization  
18 of a prepaid card or authorization number, are subject to tax under this  
19 section.

20 R. For the purposes of this section, the diversion of gas from a  
21 pipeline by a person engaged in the business of operating a natural or  
22 artificial gas pipeline, for the sole purpose of fueling compressor equipment  
23 to pressurize the pipeline, is not a sale of the gas to the operator of the  
24 pipeline.

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

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

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

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

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

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

16           1. "COMPUTER" MEANS A LAPTOP, DESKTOP, NOTEBOOK OR TOWER COMPUTER  
17 SYSTEM THAT CONSISTS OF A CENTRAL PROCESSING UNIT, RANDOM ACCESS MEMORY, A  
18 STORAGE DRIVE, A DISPLAY MONITOR AND A KEYBOARD AND DEVICES DESIGNED FOR USE  
19 IN CONJUNCTION WITH A PERSONAL COMPUTER, SUCH AS A DISK DRIVE, MEMORY MODULE,  
20 COMPACT DISK DRIVE, DAUGHTERBOARD, DIGITALIZER, MICROPHONE, MODEM,  
21 MOTHERBOARD, MOUSE, MULTIMEDIA SPEAKER, PRINTER, SCANNER, SINGLE-USER  
22 HARDWARE, SINGLE-USER OPERATING SYSTEM, SOUND CARD OR VIDEO CARD. COMPUTER  
23 DOES NOT MEAN MAINFRAME COMPUTERS, NETWORK HARDWARE, OPERATING SYSTEMS AND  
24 SOFTWARE, MINICOMPUTERS, HAND-HELD COMPUTERS, PERSONAL DIGITAL ASSISTANTS  
25 WITHOUT INTERNET ACCESS, HARDWARE WORD PROCESSORS, GRAPHICAL CALCULATORS,  
26 VIDEO GAME CONSOLES, GAME CONTROLLERS, TELEPHONES, DIGITAL CAMERAS, PAGERS,  
27 COMPACT DISCS ENCODED WITH MUSIC OR MOTION PICTURES, DIGITAL VERSATILE DISCS  
28 ENCODED WITH MUSIC OR MOTION PICTURES AND SURGE PROTECTION OR UNINTERRUPTED  
29 POWER SUPPLY DEVICES.

30           2. "SCHOOL ART SUPPLIES" MEANS CLAY AND GLAZES, ACRYLIC PAINTS,  
31 TEMPORA PAINTS, OIL PAINTS, PAINTBRUSHES FOR ARTWORK, SKETCH AND DRAWING PADS  
32 AND WATERCOLORS.

33           3. "SCHOOL CLOTHES" MEANS ARTICLES OF CLOTHING THAT MEET THE SCHOOL  
34 UNIFORM OR DRESS CODE REQUIREMENTS PRESCRIBED BY A LOCAL SCHOOL DISTRICT  
35 GOVERNING BOARD, GOVERNING BODY OF A CHARTER SCHOOL OR PRIVATE OR PAROCHIAL  
36 SCHOOL AND THAT HAVE A SALES PRICE OF FIFTY DOLLARS OR LESS PER ARTICLE OF  
37 CLOTHING.

38           4. "SCHOOL COMPUTER SUPPLIES" MEANS THE FOLLOWING ITEMS THAT ARE  
39 REQUIRED IN A COURSE OF STUDY IN WHICH A COMPUTER IS USED:

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

41           (b) HANDHELD ELECTRONIC SCHEDULERS, EXCLUDING DEVICES CONTAINING  
42 CELLULAR PHONES.

43           (c) PERSONAL DIGITAL ASSISTANTS, EXCLUDING DEVICES CONTAINING CELLULAR  
44 PHONES.

45           (d) COMPUTER PRINTERS.

- 1 (e) PRINTER SUPPLIES FOR COMPUTERS, INCLUDING PAPER AND PRINTER INK.
- 2 (f) EDUCATIONAL SOFTWARE.

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

6 (a) "TEXTBOOKS":

7 (i) MEANS A PRINTED BOOK THAT CONTAINS SYSTEMATICALLY ORGANIZED  
8 EDUCATIONAL INFORMATION THAT COVERS THE PRIMARY OBJECTIVES OF A COURSE OF  
9 STUDY.

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

12 (b) "WORKBOOKS":

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

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

17 6. "SCHOOL SUPPLIES" MEANS BINDERS, BOOK BAGS, CALCULATORS, CELLOPHANE  
18 TAPE, BLACKBOARD CHALK, COMPASSES, COMPOSITION BOOKS, CRAYONS, ERASERS,  
19 EXPANDABLE FOLDERS, POCKET FOLDERS, PLASTIC FOLDERS, MANILA FOLDERS, GLUE,  
20 PASTE, PASTE STICKS, HIGHLIGHTERS, INDEX CARDS, INDEX CARD BOXES, LEGAL PADS,  
21 LUNCH BOXES, MARKERS, NOTEBOOKS, LOOSE LEAF RULED NOTEBOOK PAPER, COPY PAPER,  
22 GRAPH PAPER, TRACING PAPER, MANILA PAPER, COLORED PAPER, POSTER BOARD,  
23 CONSTRUCTION PAPER, PENCILS, PENCIL SHARPENERS, PENCIL BOXES AND OTHER SCHOOL  
24 SUPPLY BOXES, PENS, PROTRACTORS, RULERS, SCISSORS AND WRITING TABLETS.

25 ~~W.~~ W. For the purposes of this section:

26 1. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

25           Sec. 2. Section 42-5159, Arizona Revised Statutes, is amended to read:  
26 [42-5159. Exemptions](#)

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

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

33           2. Tangible personal property the sale or use of which has already  
34 been subjected to an excise tax at a rate equal to or exceeding the tax  
35 imposed by this article under the laws of another state of the United States.  
36 If the excise tax imposed by the other state is at a rate less than the tax  
37 imposed by this article, the tax imposed by this article is reduced by the  
38 amount of the tax already imposed by the other state.

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

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

1           5. Motor vehicle fuel and use fuel, the sales, distribution or use of  
2 which in this state is subject to the tax imposed under title 28, chapter 16,  
3 article 1, use fuel which is sold to or used by a person holding a valid  
4 single trip use fuel tax permit issued under section 28-5739, aviation fuel,  
5 the sales, distribution or use of which in this state is subject to the tax  
6 imposed under section 28-8344, and jet fuel, the sales, distribution or use  
7 of which in this state is subject to the tax imposed under article 8 of this  
8 chapter.

9           6. Tangible personal property brought into this state by an individual  
10 who was a nonresident at the time the property was purchased for storage, use  
11 or consumption by the individual if the first actual use or consumption of  
12 the property was outside this state, unless the property is used in  
13 conducting a business in this state.

14           7. Purchases of implants used as growth promotants and injectable  
15 medicines, not already exempt under paragraph 16 of this subsection, for  
16 livestock and poultry owned by, or in possession of, persons who are engaged  
17 in producing livestock, poultry, or livestock or poultry products, or who are  
18 engaged in feeding livestock or poultry commercially. For the purposes of  
19 this paragraph, "poultry" includes ratites.

20           8. Livestock, poultry, supplies, feed, salts, vitamins and other  
21 additives for use or consumption in the businesses of farming, ranching and  
22 feeding livestock or poultry, not including fertilizers, herbicides and  
23 insecticides. For the purposes of this paragraph, "poultry" includes  
24 ratites.

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

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

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

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

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

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

41           13. Tangible personal property purchased by:

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

1 (b) A hospital operated by this state or a political subdivision of  
2 this state.

3 (c) A licensed nursing care institution or a licensed residential care  
4 institution or a residential care facility operated in conjunction with a  
5 licensed nursing care institution or a licensed kidney dialysis center, which  
6 provides medical services, nursing services or health related services and is  
7 not used or held for profit.

8 (d) A qualifying health care organization, as defined in section  
9 42-5001, if the tangible personal property is used by the organization solely  
10 to provide health and medical related educational and charitable services.

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

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

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

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

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

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

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

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

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

43 (k) A person engaged in business under the transient lodging  
44 classification if the property is a personal hygiene item or articles used by  
45 human beings for food, drink or condiment, except alcoholic beverages, which

1 are furnished without additional charge to and intended to be consumed by the  
2 transient during the transient's occupancy.

3 (1) For taxable periods beginning from and after June 30, 2001, a  
4 nonprofit charitable organization that has qualified under section 501(c)(3)  
5 of the internal revenue code and that provides residential apartment housing  
6 for low income persons over sixty-two years of age in a facility that  
7 qualifies for a federal housing subsidy, if the tangible personal property is  
8 used by the organization solely to provide residential apartment housing for  
9 low income persons over sixty-two years of age in a facility that qualifies  
10 for a federal housing subsidy.

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

16 15. Tangible personal property sold by:

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

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

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

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

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

37 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

17           27. Lottery tickets or shares purchased pursuant to title 5, chapter 5,  
18 article 1.

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

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

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

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

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

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

41           (b) Public educational institutions.

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

1           33. Natural gas or liquefied petroleum gas used to propel a motor  
2 vehicle.

3           34. Machinery, equipment, technology or related supplies that are only  
4 useful to assist a person who is physically disabled as defined in section  
5 46-191, has a developmental disability as defined in section 36-551 or has a  
6 head injury as defined in section 41-3201 to be more independent and  
7 functional.

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

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

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

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

32           39. Overhead materials or other tangible personal property that is used  
33 in performing a contract between the United States government and a  
34 manufacturer, modifier, assembler or repairer, including property used in  
35 performing a subcontract with a government contractor who is a manufacturer,  
36 modifier, assembler or repairer, to which title passes to the government  
37 under the terms of the contract or subcontract. For the purposes of this  
38 paragraph:

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

1 (b) "Subcontract" means an agreement between a contractor and any  
2 person who is not an employee of the contractor for furnishing of supplies or  
3 services that, in whole or in part, are necessary to the performance of one  
4 or more government contracts, or under which any portion of the contractor's  
5 obligation under one or more government contracts is performed, undertaken or  
6 assumed, and that includes provisions causing title to overhead materials or  
7 other tangible personal property used in the performance of the subcontract  
8 to pass to the government or that includes provisions incorporating such  
9 title passing clauses in a government contract into the subcontract.

10 40. Through December 31, 1994, tangible personal property sold pursuant  
11 to a personal property liquidation transaction, as defined in section  
12 42-5061. From and after December 31, 1994, tangible personal property sold  
13 pursuant to a personal property liquidation transaction, as defined in  
14 section 42-5061, if the gross proceeds of the sales were included in the  
15 measure of the tax imposed by article 1 of this chapter or if the personal  
16 property liquidation was a casual activity or transaction.

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

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

23 43. Tangible personal property purchased by a commercial airline and  
24 consisting of food, beverages and condiments and accessories used for serving  
25 the food and beverages, if those items are to be provided without additional  
26 charge to passengers for consumption in flight. For the purposes of this  
27 paragraph, "commercial airline" means a person holding a federal certificate  
28 of public convenience and necessity or foreign air carrier permit for air  
29 transportation to transport persons, property or United States mail in  
30 intrastate, interstate or foreign commerce.

31 44. Alternative fuel vehicles if the vehicle was manufactured as a  
32 diesel fuel vehicle and converted to operate on alternative fuel and  
33 equipment that is installed in a conventional diesel fuel motor vehicle to  
34 convert the vehicle to operate on an alternative fuel, as defined in section  
35 1-215.

36 45. Gas diverted from a pipeline, by a person engaged in the business  
37 of operating a natural or artificial gas pipeline, and used or consumed for  
38 the sole purpose of fueling compressor equipment that pressurizes the  
39 pipeline.

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

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

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

6           49. SCHOOL ART SUPPLIES, SCHOOL CLOTHES, SCHOOL COMPUTER SUPPLIES,  
7 COMPUTERS NOT TO EXCEED A COST OF ONE THOUSAND DOLLARS, SCHOOL INSTRUCTIONAL  
8 MATERIALS AND SCHOOL SUPPLIES THAT ARE PURCHASED DURING A PERIOD BEGINNING AT  
9 12:01 A.M. ON AUGUST 1 THROUGH MIDNIGHT ON AUGUST 7 EACH YEAR.

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

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

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

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

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

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

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

43           7. Aircraft, navigational and communication instruments and other  
44 accessories and related equipment sold to:

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

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

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

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

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

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

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

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

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

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

40 14. Machinery or equipment used in research and development. For the  
41 purposes of this paragraph, "research and development" means basic and  
42 applied research in the sciences and engineering, and designing, developing  
43 or testing prototypes, processes or new products, including research and  
44 development of computer software that is embedded in or an integral part of  
45 the prototype or new product or that is required for machinery or equipment

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

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

14 (a) "Motion picture, multimedia or interactive video production"  
15 includes products for theatrical and television release, educational  
16 presentations, electronic retailing, documentaries, music videos, industrial  
17 films, CD-ROM, video game production, commercial advertising and television  
18 episode production and other genres that are introduced through developing  
19 technology.

20 (b) "Soundstage complex" means a facility of multiple stages including  
21 production offices, construction shops and related areas, prop and costume  
22 shops, storage areas, parking for production vehicles and areas that are  
23 leased to businesses that complement the production needs and orientation of  
24 the overall facility.

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

28 (a) Any direct broadcast satellite television or data transmission  
29 service that operates pursuant to 47 Code of Federal Regulations parts 25 and  
30 100.

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

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

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

42 For the purposes of subdivision (b) of this paragraph, "test period" means  
43 the three hundred sixty-five day period beginning on the later of the date on  
44 which the tangible personal property is purchased or the date on which the

1 direct broadcast satellite television or data transmission service first  
2 transmits information to its customers.

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

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

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

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

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

33 20. Machinery and equipment that are used in the commercial production  
34 of livestock, livestock products or agricultural, horticultural, viticultural  
35 or floricultural crops or products in this state and that are used directly  
36 and primarily to prevent, monitor, control or reduce air, water or land  
37 pollution.

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

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

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

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

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

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

20 C. The exemptions provided by subsection B of this section do not  
21 include:

22 1. Expendable materials. For the purposes of this paragraph,  
23 expendable materials do not include any of the categories of tangible  
24 personal property specified in subsection B of this section regardless of the  
25 cost or useful life of that property.

26 2. Janitorial equipment and hand tools.

27 3. Office equipment, furniture and supplies.

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

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

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

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

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

40 1. Revenues received from sales of ancillary services, electric  
41 distribution services, electric generation services, electric transmission  
42 services and other services related to providing electricity to a retail  
43 electric customer who is located outside this state for use outside this  
44 state if the electricity is delivered to a point of sale outside this state.

1           2. Revenues received from providing electricity, including ancillary  
2 services, electric distribution services, electric generation services,  
3 electric transmission services and other services related to providing  
4 electricity with respect to which the transaction privilege tax imposed under  
5 section 42-5063 has been paid.

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

7           1. The storage, use or consumption in Arizona of machinery, equipment,  
8 materials or other tangible personal property if used directly and  
9 predominantly to construct a qualified environmental technology  
10 manufacturing, producing or processing facility, as described in section  
11 41-1514.02. This paragraph applies for ten full consecutive calendar or  
12 fiscal years after the start of initial construction.

13           2. The purchase of electricity by a qualified environmental technology  
14 manufacturer, producer or processor as defined in section 41-1514.02 that is  
15 used directly in environmental technology manufacturing, producing or  
16 processing. This paragraph shall apply for fifteen full consecutive calendar  
17 or fiscal years from the date the first paper manufacturing machine is placed  
18 in service. In the case of an environmental technology manufacturer,  
19 producer or processor who does not manufacture paper, the time period shall  
20 begin with the date the first manufacturing, processing or production  
21 equipment is placed in service.

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

24           1. Fees charged by a municipally owned utility to persons constructing  
25 residential, commercial or industrial developments or connecting residential,  
26 commercial or industrial developments to a municipal utility system or  
27 systems if the fees are segregated and used only for capital expansion,  
28 system enlargement or debt service of the utility system or systems.

29           2. Reimbursement or contribution compensation to any person or persons  
30 owning a utility system for property and equipment installed to provide  
31 utility access to, on or across the land of an actual utility consumer if the  
32 property and equipment become the property of the utility. This deduction  
33 shall not exceed the value of such property and equipment.

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

35           1. "COMPUTER" MEANS A LAPTOP, DESKTOP, NOTEBOOK OR TOWER COMPUTER  
36 SYSTEM THAT CONSISTS OF A CENTRAL PROCESSING UNIT, RANDOM ACCESS MEMORY, A  
37 STORAGE DRIVE, A DISPLAY MONITOR AND A KEYBOARD AND DEVICES DESIGNED FOR USE  
38 IN CONJUNCTION WITH A PERSONAL COMPUTER, SUCH AS A DISK DRIVE, MEMORY MODULE,  
39 COMPACT DISK DRIVE, DAUGHTERBOARD, DIGITALIZER, MICROPHONE, MODEM,  
40 MOTHERBOARD, MOUSE, MULTIMEDIA SPEAKER, PRINTER, SCANNER, SINGLE-USER  
41 HARDWARE, SINGLE-USER OPERATING SYSTEM, SOUND CARD OR VIDEO CARD. COMPUTER  
42 DOES NOT MEAN MAINFRAME COMPUTERS, NETWORK HARDWARE, OPERATING SYSTEMS AND  
43 SOFTWARE, MINICOMPUTERS, HAND-HELD COMPUTERS, PERSONAL DIGITAL ASSISTANTS  
44 WITHOUT INTERNET ACCESS, HARDWARE WORD PROCESSORS, GRAPHICAL CALCULATORS,  
45 VIDEO GAME CONSOLES, GAME CONTROLLERS, TELEPHONES, DIGITAL CAMERAS, PAGERS,

1 COMPACT DISCS ENCODED WITH MUSIC OR MOTION PICTURES, DIGITAL VERSATILE DISCS  
2 ENCODED WITH MUSIC OR MOTION PICTURES AND SURGE PROTECTION OR UNINTERRUPTED  
3 POWER SUPPLY DEVICES.

4 2. "SCHOOL ART SUPPLIES" MEANS CLAY AND GLAZES, ACRYLIC PAINTS,  
5 TEMPORA PAINTS, OIL PAINTS, PAINTBRUSHES FOR ARTWORK, SKETCH AND DRAWING PADS  
6 AND WATERCOLORS.

7 3. "SCHOOL CLOTHES" MEANS ARTICLES OF CLOTHING THAT MEET THE SCHOOL  
8 UNIFORM OR DRESS CODE REQUIREMENTS PRESCRIBED BY A LOCAL SCHOOL DISTRICT  
9 GOVERNING BOARD, GOVERNING BODY OF A CHARTER SCHOOL OR PRIVATE OR PAROCHIAL  
10 SCHOOL AND THAT HAVE A SALES PRICE OF FIFTY DOLLARS OR LESS PER ARTICLE OF  
11 CLOTHING.

12 4. "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 (f) EDUCATIONAL SOFTWARE.

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

25 (a) "TEXTBOOKS":

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

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

31 (b) "WORKBOOKS":

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

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

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

1           ~~G.~~ H. For the purposes of subsection B 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           ~~H.~~ I. For the purposes of subsection D of this section, "ancillary  
13 services", "electric distribution service", "electric generation service",  
14 "electric transmission service" and "other services" have the same meanings  
15 prescribed in section 42-5063.

16           Sec. 3. Section 42-6004, Arizona Revised Statutes, is amended to read:  
17 42-6004. Exemption from municipal tax

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

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

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

29           3. Sales of warranty or service contracts.

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

33           5. Interest on finance contracts.

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

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

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

1 on the gross proceeds of sales or gross income from sales of food and nonfood  
2 items, it shall use the definition of food prescribed by rule adopted by the  
3 department pursuant to section 42-5106.

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

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

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

14 10. SALES OF SCHOOL ART SUPPLIES, SCHOOL CLOTHES, SCHOOL COMPUTER  
15 SUPPLIES, COMPUTERS NOT TO EXCEED A COST OF ONE THOUSAND DOLLARS, SCHOOL  
16 INSTRUCTIONAL MATERIALS AND SCHOOL SUPPLIES THAT ARE PURCHASED DURING A  
17 PERIOD BEGINNING AT 12:01 A.M. ON AUGUST 1 THROUGH MIDNIGHT ON AUGUST 7 EACH  
18 YEAR. THIS PARAGRAPH DOES NOT APPLY IF EITHER OF THE FOLLOWING OCCUR:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24           1. **"COMPUTER" MEANS A LAPTOP, DESKTOP, NOTEBOOK OR TOWER COMPUTER**  
25 **SYSTEM THAT CONSISTS OF A CENTRAL PROCESSING UNIT, RANDOM ACCESS MEMORY, A**  
26 **STORAGE DRIVE, A DISPLAY MONITOR AND A KEYBOARD AND DEVICES DESIGNED FOR USE**  
27 **IN CONJUNCTION WITH A PERSONAL COMPUTER, SUCH AS A DISK DRIVE, MEMORY MODULE,**  
28 **COMPACT DISK DRIVE, DAUGHTERBOARD, DIGITALIZER, MICROPHONE, MODEM,**  
29 **MOTHERBOARD, MOUSE, MULTIMEDIA SPEAKER, PRINTER, SCANNER, SINGLE-USER**  
30 **HARDWARE, SINGLE-USER OPERATING SYSTEM, SOUND CARD OR VIDEO CARD. COMPUTER**  
31 **DOES NOT MEAN MAINFRAME COMPUTERS, NETWORK HARDWARE, OPERATING SYSTEMS AND**  
32 **SOFTWARE, MINICOMPUTERS, HAND-HELD COMPUTERS, PERSONAL DIGITAL ASSISTANTS**  
33 **WITHOUT INTERNET ACCESS, HARDWARE WORD PROCESSORS, GRAPHICAL CALCULATORS,**  
34 **VIDEO GAME CONSOLES, GAME CONTROLLERS, TELEPHONES, DIGITAL CAMERAS, PAGERS,**  
35 **COMPACT DISCS ENCODED WITH MUSIC OR MOTION PICTURES, DIGITAL VERSATILE DISCS**  
36 **ENCODED WITH MUSIC OR MOTION PICTURES AND SURGE PROTECTION OR UNINTERRUPTED**  
37 **POWER SUPPLY DEVICES.**

38           2. **"SCHOOL ART SUPPLIES" MEANS CLAY AND GLAZES, ACRYLIC PAINTS,**  
39 **TEMPORA PAINTS, OIL PAINTS, PAINTBRUSHES FOR ARTWORK, SKETCH AND DRAWING PADS**  
40 **AND WATERCOLORS.**

41           3. **"SCHOOL CLOTHES" MEANS ARTICLES OF CLOTHING THAT MEET THE SCHOOL**  
42 **UNIFORM OR DRESS CODE REQUIREMENTS PRESCRIBED BY A LOCAL SCHOOL DISTRICT**  
43 **GOVERNING BOARD, GOVERNING BODY OF A CHARTER SCHOOL OR PRIVATE OR PAROCHIAL**  
44 **SCHOOL AND THAT HAVE A SALES PRICE OF FIFTY DOLLARS OR LESS PER ARTICLE OF**  
45 **CLOTHING.**

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

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

4           (b) HANDHELD ELECTRONIC SCHEDULERS, EXCLUDING DEVICES CONTAINING  
5 CELLULAR PHONES.

6           (c) PERSONAL DIGITAL ASSISTANTS, EXCLUDING DEVICES CONTAINING CELLULAR  
7 PHONES.

8           (d) COMPUTER PRINTERS.

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

10          (f) EDUCATIONAL SOFTWARE.

11          5. "SCHOOL INSTRUCTIONAL MATERIAL" MEANS REFERENCE BOOKS, REFERENCE  
12 MAPS AND GLOBES, TEXTBOOKS AND WORKBOOKS. FOR THE PURPOSES OF THIS  
13 PARAGRAPH:

14          (a) "TEXTBOOKS":

15           (i) MEANS A PRINTED BOOK THAT CONTAINS SYSTEMATICALLY ORGANIZED  
16 EDUCATIONAL INFORMATION THAT COVERS THE PRIMARY OBJECTIVES OF A COURSE OF  
17 STUDY.

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

20          (b) "WORKBOOKS":

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

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

25          6. "SCHOOL SUPPLIES" MEANS BINDERS, BOOK BAGS, CALCULATORS, CELLOPHANE  
26 TAPE, BLACKBOARD CHALK, COMPASSES, COMPOSITION BOOKS, CRAYONS, ERASERS,  
27 EXPANDABLE FOLDERS, POCKET FOLDERS, PLASTIC FOLDERS, MANILA FOLDERS, GLUE,  
28 PASTE, PASTE STICKS, HIGHLIGHTERS, INDEX CARDS, INDEX CARD BOXES, LEGAL PADS,  
29 LUNCH BOXES, MARKERS, NOTEBOOKS, LOOSE LEAF RULED NOTEBOOK PAPER, COPY PAPER,  
30 GRAPH PAPER, TRACING PAPER, MANILA PAPER, COLORED PAPER, POSTER BOARD,  
31 CONSTRUCTION PAPER, PENCILS, PENCIL SHARPENERS, PENCIL BOXES AND OTHER SCHOOL  
32 SUPPLY BOXES, PENS, PROTRACTORS, RULERS, SCISSORS AND WRITING TABLETS.

33          Sec. 4. Section 43-222, Arizona Revised Statutes, as amended by Laws  
34 2005, chapter 12, section 1, chapter 264, section 1, chapter 316, section 2  
35 and chapter 317, section 10, is amended to read:

36          43-222. Income tax credit review schedule

37          Each year the joint legislative income tax credit review committee  
38 shall review the following income tax credits:

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

40           2. In 2006, sections 43-1073, 43-1089, 43-1089.01, 43-1089.02,  
41 43-1090, 43-1176 and 43-1181.

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

44           4. In 2008, sections 43-1074.01, 43-1081, 43-1168, 43-1170 and  
45 43-1178.

1           5. In 2009, sections 43-1076, 43-1081.01, 43-1083, 43-1084, 43-1162  
2 and 43-1170.01.

3           6. In 2010, sections 43-1075, ~~and 43-1163.~~  
4           ~~7. In 2010, sections~~ 43-1079.01, ~~and 43-1090.01,~~ 43-1163, 43-1167.01  
5 AND 43-1182.

6           ~~8-~~ 7. In 2011, ~~section~~ SECTIONS 43-1074.02 AND 43-1089.03.

7           Sec. 5. Repeal  
8           Section 43-222, Arizona Revised Statutes, as amended by Laws 2005,  
9 chapter 292, section 1, is repealed.

10          Sec. 6. Section 43-1022, Arizona Revised Statutes, is amended to read:  
11 43-1022. Subtractions from Arizona gross income

12          In computing Arizona adjusted gross income, the following amounts shall  
13 be subtracted from Arizona gross income:

- 14           1. The amount of exemptions allowed by section 43-1023.  
15           2. Benefits, annuities and pensions in an amount totaling not more  
16 than two thousand five hundred dollars received from one or more of the  
17 following:

18           (a) The United States government service retirement and disability  
19 fund, retired or retainer pay of the uniformed services of the United States,  
20 the United States foreign service retirement and disability system and any  
21 other retirement system or plan established by federal law.

22           (b) The Arizona state retirement system, the corrections officer  
23 retirement plan, the public safety personnel retirement system, the elected  
24 officials' retirement plan, an optional retirement program established by the  
25 Arizona board of regents under section 15-1628, an optional retirement  
26 program established by a community college district board under section  
27 15-1451 or a retirement plan established for employees of a county, city or  
28 town in this state.

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

32           4. The amount of any distributions from an individual retirement  
33 account as provided for in section 408 of the internal revenue code or from a  
34 qualified retirement plan of a self-employed individual as provided for in  
35 section 401 of the internal revenue code to the extent that total adjustments  
36 made pursuant to this paragraph in all tax years do not exceed the total of  
37 all contributions made by the taxpayer to such plans prior to December 31,  
38 1975, which were included in computing Arizona taxable income.

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

43           6. Interest income received on obligations of the United States, less  
44 any interest on indebtedness, or other related expenses, and deducted in

1 arriving at Arizona gross income, which were incurred or continued to  
2 purchase or carry such obligations.

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

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

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

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

15 11. The amount by which the adjusted basis of property described in  
16 this paragraph and computed pursuant to this title and the income tax act of  
17 1954, as amended, exceeds the adjusted basis of such property computed  
18 pursuant to the internal revenue code. This paragraph shall apply to all  
19 property which is held for the production of income and which is sold or  
20 otherwise disposed of during the taxable year other than depreciable property  
21 used in a trade or business.

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

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

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

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

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

41 17. The amount of exploration expenses that is determined pursuant to  
42 section 617 of the internal revenue code, that has been deferred in a taxable  
43 year ending before January 1, 1990 and for which a subtraction has not  
44 previously been made. The subtraction shall be made on a ratable basis as

1 the units of produced ores or minerals discovered or explored as a result of  
2 this exploration are sold.

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

6 19. To the extent not already excluded from Arizona gross income under  
7 section 112 of the internal revenue code, compensation received for active  
8 service as a member of the armed forces of the United States for any month  
9 during any part of which the member served in a combat zone as determined  
10 under section 112 of the internal revenue code or in an area given the same  
11 treatment as a combat zone for purposes of section 112 of the internal  
12 revenue code.

13 20. The amount of unreimbursed medical and hospital costs, adoption  
14 counseling, legal and agency fees and other nonrecurring costs of adoption  
15 not to exceed three thousand dollars. In the case of a husband and wife who  
16 file separate returns, the subtraction may be taken by either taxpayer or may  
17 be divided between them, but the total subtractions allowed both husband and  
18 wife shall not exceed three thousand dollars. The subtraction under this  
19 paragraph may be taken for the costs that are described in this paragraph and  
20 that are incurred in prior years, but the subtraction may be taken only in  
21 the year during which the final adoption order is granted.

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

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

26 (a) An eligible individual may subtract:

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

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

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

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

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

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

4           26. The amount authorized by section 43-1030 relating to holocaust  
5 survivors.

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

8           28. An amount equal to the depreciation allowable pursuant to section  
9 167(a) of the internal revenue code for the taxable year computed as if the  
10 election described in section 168(k)(2)(C)(iii) of the internal revenue code  
11 had been made for each applicable class of property in the year the property  
12 was placed in service.

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

19           30. With respect to property for which an adjustment was made under  
20 section 43-1021, paragraph 27, an amount equal to one-fifth of the amount of  
21 the adjustment pursuant to section 43-1021, paragraph 27 in the year in which  
22 the amount was adjusted under section 43-1021, paragraph 27 and in each of  
23 the following four years.

24           31. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2006, THE  
25 AMOUNT OF UNREIMBURSED COSTS THAT ARE PAID BY A QUALIFIED TEACHER OR  
26 QUALIFIED TEACHER'S AIDE FOR EDUCATIONAL SUPPLIES AND MATERIALS USED IN A  
27 CLASSROOM IN THIS STATE IN A KINDERGARTEN PROGRAM OR GRADES ONE THROUGH  
28 TWELVE AND THAT EXCEED THE AMOUNT SET OFF PURSUANT TO SECTION 43-1089.03.  
29 FOR THE PURPOSES OF THIS PARAGRAPH, "EDUCATIONAL SUPPLIES AND MATERIALS",  
30 "QUALIFIED TEACHER" AND QUALIFIED TEACHER'S AIDE HAVE THE SAME MEANINGS  
31 PRESCRIBED IN SECTION 43-1089.03.

32           Sec. 7. Section 43-1042, Arizona Revised Statutes, is amended to read:

33           43-1042. Itemized deductions

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

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

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

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

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

11 F. A TAXPAYER SHALL NOT CLAIM A DEDUCTION PROVIDED BY THIS SECTION FOR  
12 EDUCATIONAL SUPPLIES OR MATERIALS FOR WHICH THE TAXPAYER CLAIMED A  
13 SUBTRACTION UNDER SECTION 43-1022, PARAGRAPH 31 OR AN OFFSET UNDER SECTION  
14 43-1089.03.

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

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

21 43-1089.03. Setoff for educational supplies; definitions

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

27 B. FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2006, A  
28 TAXPAYER WHO IS A QUALIFIED TEACHER'S AIDE MAY OFFSET THE TAXES IMPOSED BY  
29 THIS TITLE BY THE AMOUNT OF THE UNREIMBURSED COST PAID DURING THE TAXABLE  
30 YEAR FOR EDUCATIONAL SUPPLIES AND MATERIALS THAT ARE USED IN A CLASSROOM IN  
31 THIS STATE, BUT NOT TO EXCEED ONE HUNDRED FIFTY DOLLARS.

32 C. FOR THE PURPOSES OF THIS SECTION:

33 1. "EDUCATIONAL SUPPLIES AND MATERIALS" MEANS ITEMS THAT ARE ALLOWABLE  
34 AS A DEDUCTION UNDER SECTION 162 OF THE INTERNAL REVENUE CODE AND THAT ARE  
35 PURCHASED BY A QUALIFIED TEACHER IN CONNECTION WITH BOOKS, SUPPLIES, COMPUTER  
36 EQUIPMENT, INCLUDING RELATED SOFTWARE AND SERVICES, AND OTHER EQUIPMENT AND  
37 SUPPLEMENTARY MATERIALS USED BY THE TEACHER IN A CLASSROOM LOCATED IN THIS  
38 STATE.

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

41 3. "QUALIFIED TEACHER'S AIDE" MEANS A FULL-TIME AIDE TO A TEACHER OF A  
42 KINDERGARTEN PROGRAM OR GRADES ONE THROUGH TWELVE IN A CLASSROOM IN THIS  
43 STATE.

1           Sec. 9. Purpose

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

6           Sec. 10. Legislative intent

7           This legislation provides a transaction privilege tax holiday on the  
8 first seven days in August in recognition of the beginning of most school  
9 years. The tax holiday will result in lower costs on retail items that  
10 parents buy for their children for the upcoming school year. The holiday  
11 will also provide lower costs on other retail items and should stimulate  
12 business activity on the designated days.

13           Sec. 11. Effective date

14           This act is effective from and after December 31, 2006.