

REFERENCE TITLE: sales tax; out-of-state use

State of Arizona
House of Representatives
Forty-eighth Legislature
First Regular Session
2007

HB 2776

Introduced by
Representative Murphy

AN ACT

AMENDING SECTIONS 42-5061 AND 42-5151, ARIZONA REVISED STATUTES; RELATING TO
TRANSACTION PRIVILEGE AND USE TAXES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Section 42-5061, 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. TANGIBLE PERSONAL PROPERTY THAT IS STORED FOR SUBSEQUENT USE SOLELY
13 OUTSIDE THIS STATE AND NOT FOR ANY OTHER USE OR CONSUMPTION, AS DEFINED IN
14 SECTION 42-5151, IN THIS STATE.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 20. Machinery and equipment that are sold to a person engaged in the
44 commercial production of livestock, livestock products or agricultural,
45 horticultural, viticultural or floricultural crops or products in this state

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

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

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

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

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

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

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

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

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

35 2. Janitorial equipment and hand tools.

36 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

1 as a result of the customer entering into or continuing a contract for the
2 telecommunications services.

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

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

12 R. For the purposes of this section, the diversion of gas from a
13 pipeline by a person engaged in the business of:

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

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

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

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

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

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

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

1 chapter and the rate of the tax in the purchaser's state of residence is
2 lower than the rate prescribed in article 1 of this chapter or if the
3 purchaser's state of residence does not impose an excise tax, and the
4 nonresident has secured a special ninety day nonresident registration permit
5 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall
6 be deducted from the tax base a portion of the gross proceeds or gross income
7 from the sale so that the amount of transaction privilege tax that is paid in
8 this state is equal to the excise tax that is imposed by the purchaser's
9 state of residence on the nonexempt sale or use of the motor vehicle.

10 V. For the purposes of this section:

11 1. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

1 6. "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 Sec. 2. Section 42-5151, Arizona Revised Statutes, is amended to read:

11 42-5151. Definitions

12 In this article, unless the context otherwise requires:

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

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

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

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

28 5. "Electric utility services" means the business of providing
29 electric ancillary services, electric distribution services, electric
30 generation services, electric transmission services and other services
31 related to providing electricity.

32 6. "Electricity" means electric energy, electric capacity or electric
33 capacity and energy.

34 7. "Electricity supplier" means a person, whether acting in a
35 principal, agent or other capacity, that offers to sell electricity to a
36 retail electric customer in this state.

37 8. "Natural gas" means natural or artificial gas, and includes methane
38 and propane gas, the natural gas commodity, natural gas pipeline capacity or
39 natural gas commodity and pipeline capacity.

40 9. "Natural gas utility services" means the business of selling
41 natural gas or providing natural gas transportation services or other
42 services related to providing natural gas.

43 10. "Notice" means written notice served personally or by certified
44 mail and addressed to the last known address of the person to whom such
45 notice is given.

1 11. "Other services" includes metering, meter reading services, billing
2 and collecting services.

3 12. "Person" means an individual, firm, partnership, joint venture,
4 association, corporation, estate, trust, receiver or syndicate, this state or
5 a county, city, municipality, district or other political subdivision or
6 agency thereof.

7 13. "Purchase" means any transfer, exchange or barter, conditional or
8 otherwise, in any manner or by any means, of tangible personal property for a
9 consideration, including transactions by which the possession of property is
10 transferred but the seller retains the title as security for payment.

11 14. "Purchase price" or "sales price" means the total amount for which
12 tangible personal property is sold, including any services that are a part of
13 the sale, valued in money, whether paid in money or otherwise, and any amount
14 for which credit is given to the purchaser by the seller without any
15 deduction on account of the cost of the property sold, materials used, labor
16 or services performed, interest charged, losses or other expenses, but does
17 not include:

18 (a) Discounts allowed and taken.

19 (b) Charges for labor or services in installing, remodeling or
20 repairing.

21 (c) Freight costs billed to and collected from a purchaser by a
22 retailer for tangible personal property which, on the order of the retailer,
23 is shipped directly from a manufacturer or wholesaler to the purchaser.

24 (d) Amounts attributable to federal excise taxes imposed by 26 United
25 States Code section 4001, 4051 or 4091 on sales of heavy trucks and trailers
26 and automobiles or on sales of use fuel, as defined in section 28-5601.

27 (e) The value of merchandise that is traded in on the purchase of new
28 or pre-owned merchandise when the trade-in allowance is deducted from the
29 sales price of the new or pre-owned merchandise before the completion of the
30 sale.

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

34 16. "Retail natural gas customer" means a person who purchases natural
35 gas for that person's own use, including use in that person's trade or
36 business, and not for resale, redistribution or retransmission.

37 17. "Retailer" includes:

38 (a) Every person engaged in the business of making sales of tangible
39 personal property for storage, use or other consumption or in the business of
40 making sales at auction of tangible personal property owned by that person or
41 others for storage, use or other consumption. If in the opinion of the
42 department it is necessary for the efficient administration of this article
43 to regard any salesmen, representatives, peddlers or canvassers as the agents
44 of the dealers, distributors, supervisors or employers under whom they
45 operate or from whom they obtain the tangible personal property sold by them,

1 regardless of whether they are making sales on their own behalf or on behalf
2 of such dealers, distributors, supervisors or employers, the department may
3 so regard them and may regard the dealers, distributors, supervisors or
4 employers as retailers for purposes of this article.

5 (b) A person who solicits orders for tangible personal property by
6 mail if the solicitations are substantial and recurring or if the retailer
7 benefits from any banking, financing, debt collection, telecommunication,
8 television shopping system, cable, optic, microwave or other communication
9 system or marketing activities occurring in this state or benefits from the
10 location in this state of authorized installation, servicing or repair
11 facilities.

12 18. "Storage" means keeping or retaining tangible personal property
13 purchased from a retailer for any purpose except sale in the regular course
14 of business or subsequent use solely outside this state.

15 19. "Taxpayer" means any retailer or person storing, using or consuming
16 tangible personal property the storage, use or consumption of which is
17 subject to the tax imposed by this article when such tax was not paid to a
18 retailer.

19 20. "Use or consumption" means the exercise of any right or power over
20 tangible personal property incidental to owning the property except:

21 (a) Holding for sale or selling the property in the regular course of
22 business.

23 (b) **STORING THE PROPERTY FOR SUBSEQUENT USE SOLELY OUTSIDE THIS STATE.**

24 21. "Utility business" means a person that is engaged in the business
25 of providing electric utility services to retail electric customers or
26 natural gas utility services to retail natural gas customers.