

REFERENCE TITLE: comprehensive transaction privilege tax; services

State of Arizona
House of Representatives
Fiftieth Legislature
Second Regular Session
2012

HB 2820

Introduced by
Representative Smith D

AN ACT

AMENDING SECTIONS 42-5010 AND 42-5061, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5077; PROVIDING FOR THE DELAYED REPEAL OF TITLE 42, CHAPTER 5, ARTICLE 3, ARIZONA REVISED STATUTES; PROVIDING FOR THE DELAYED REPEAL OF SECTION 42-5159, ARIZONA REVISED STATUTES; AMENDING SECTION 43-206, ARIZONA REVISED STATUTES; PROVIDING FOR THE DELAYED REPEAL OF TITLE 43, CHAPTERS 10 AND 11, ARIZONA REVISED STATUTES; 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 42-5010, Arizona Revised Statutes, is amended to
3 read:
4 42-5010. Rates; distribution base
5 A. The tax imposed by this article is levied and shall be collected at
6 the following rates:
7 1. ~~Five~~ SIX per cent of the tax base as computed for the business of
8 every person engaging or continuing in this state in the following business
9 classifications described in article 2 of this chapter:
10 (a) Transporting classification.
11 (b) Utilities classification.
12 (c) Telecommunications classification.
13 (d) Pipeline classification.
14 (e) Private car line classification.
15 (f) Publication classification.
16 (g) Job printing classification.
17 (h) Prime contracting classification.
18 (i) Owner builder sales classification.
19 (j) Amusement classification.
20 (k) Restaurant classification.
21 (l) Personal property rental classification.
22 (m) Retail classification.
23 2. ~~Five and one-half~~ SIX per cent of the tax base as computed for the
24 business of every person engaging or continuing in this state in the
25 transient lodging classification described in section 42-5070.
26 3. ~~Three and one-eighth~~ SIX per cent of the tax base as computed for
27 the business of every person engaging or continuing in this state in the
28 mining classification described in section 42-5072.
29 4. ~~Zero~~ SIX per cent of the tax base as computed for the business of
30 every person engaging or continuing in this state in the commercial lease
31 classification described in section 42-5069.
32 5. SIX PER CENT OF THE TAX BASE AS COMPUTED FOR THE BUSINESS OF EVERY
33 PERSON ENGAGING OR CONTINUING IN THIS STATE IN THE SERVICES CLASSIFICATION
34 DESCRIBED IN SECTION 42-5077.
35 B. Twenty per cent of the tax revenues collected at the rate
36 prescribed by subsection A, paragraph 1 of this section from persons on
37 account of engaging in business under the business classifications listed in
38 subsection A, paragraph 1, subdivisions (a) through (i) of this section is
39 designated as distribution base for purposes of section 42-5029.
40 C. Forty per cent of the tax revenues collected at the rate prescribed
41 by subsection A, paragraph 1 of this section from persons on account of
42 engaging in business under the business classifications listed in subsection
43 A, paragraph 1, subdivisions (j) through (m) of this section is designated
44 as distribution base for purposes of section 42-5029.

1 D. Thirty-two per cent of the tax revenues collected from persons on
2 account of engaging in business under the business classification listed in
3 subsection A, paragraph 3 of this section is designated as distribution base
4 for purposes of section 42-5029.

5 E. Fifty-three and one-third per cent of the tax revenues collected
6 from persons on account of engaging in business under the business
7 classification listed in subsection A, paragraph 4 of this section is
8 designated as distribution base for purposes of section 42-5029.

9 F. Fifty per cent of the tax revenues collected from persons on
10 account of engaging in business under the business classification listed in
11 subsection A, paragraph 2 of this section is designated as distribution base
12 for purposes of section 42-5029.

13 G. In addition to the rates prescribed by subsection A of this
14 section, if approved by the qualified electors voting at a statewide general
15 election, an additional rate increment is imposed and shall be collected
16 through June 30, 2021. The taxpayer shall pay taxes pursuant to this
17 subsection at the same time and in the same manner as under subsection A of
18 this section. The department shall separately account for the revenues
19 collected with respect to the rates imposed pursuant to this subsection and
20 the state treasurer shall distribute all of those revenues in the manner
21 prescribed by section 42-5029, subsection E. The rates imposed pursuant to
22 this subsection shall not be considered local revenues for purposes of
23 article IX, section 21, Constitution of Arizona. The additional tax rate
24 increment is levied at the rate of six-tenths of one per cent of the tax base
25 of every person engaging or continuing in this state in a business
26 classification listed in subsection A, paragraph 1 of this section.

27 H. Any increase in the rate of tax that is imposed by this chapter and
28 that is enacted by the legislature or by a vote of the people does not apply
29 with respect to contracts entered into by prime contractors or pursuant to
30 written bids made by prime contractors on or before the effective date of the
31 legislation or the date of the election enacting the increase. To qualify
32 for the exemption under this subsection, the prime contractor must maintain
33 sufficient documentation, in a manner and form prescribed by the department,
34 to verify the date of the contract or written bid.

35 I. For taxpayers taxable under this chapter other than prime
36 contractors taxable pursuant to section 42-5075:

37 1. Any increase in the rate of tax that is levied by this article or
38 article 2 of this chapter enacted by the legislature or by a vote of the
39 people does not apply for a period of one hundred twenty days from the date
40 of the tax rate increase to the gross proceeds of sales or gross income from
41 the business of the taxpayer with respect to written contracts entered into
42 before the effective date of the tax rate increase unless the taxpayer has
43 entered into a contract that contains a provision that entitles the taxpayer
44 to recover from the purchaser the amount of the additional tax levied.

1 2. The provisions of this subsection apply without regard to the
2 accounting method used by the taxpayer to report the taxes imposed under
3 article 2 of this chapter.

4 3. The provisions of this subsection shall not be considered in
5 determining the rate of tax imposed under chapter 6, article 3 of this title.

6 Sec. 2. Section 42-5061, Arizona Revised Statutes, is amended to read:
7 ~~42-5061. Retail classification; definition~~

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

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

16 ~~2. Services rendered in addition to selling tangible personal property~~
17 ~~at retail.~~

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

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

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

28 ~~6. Business activity which is properly included in any other business~~
29 ~~classification which is taxable under this article.~~

30 ~~7. The sale of stocks and bonds.~~

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

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

37 ~~10. Insulin, insulin syringes and glucose test strips.~~

38 ~~11. Prescription eyeglasses or contact lenses.~~

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

40 ~~13. 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, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and~~
44 ~~customarily used to serve a medical purpose, is generally not useful to a~~

1 ~~person in the absence of illness or injury and is appropriate for use in the~~
2 ~~home.~~

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

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

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

13 ~~17. Textbooks by any bookstore that are required by any state~~
14 ~~university or community college.~~

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

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

24 ~~20. Lottery tickets or shares pursuant to title 5, chapter 5,~~
25 ~~article 1.~~

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

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

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

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

43 ~~23. Tangible personal property sold to a person engaged in the business~~
44 ~~of leasing or renting such property under the personal property rental~~
45 ~~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 twenty 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. Through August 31, 2014, sales of Arizona centennial medallions by~~
13 ~~the historical advisory commission.~~

14 ~~55. Application services that are designed to assess or test student~~
15 ~~learning or to promote curriculum design or enhancement purchased by or for~~
16 ~~any school district, charter school, community college or state university.~~
17 ~~For the purposes of this paragraph:~~

18 ~~(a) "Application services" means software applications provided~~
19 ~~remotely using hypertext transfer protocol or another network protocol.~~

20 ~~(b) "Curriculum design or enhancement" means planning, implementing or~~
21 ~~reporting on courses of study, lessons, assignments or other learning~~
22 ~~activities.~~

23 ~~B. In addition to the deductions from the tax base prescribed by~~
24 ~~subsection A of this section, the gross proceeds of sales or gross income~~
25 ~~derived from sales of the following categories of tangible personal property~~
26 ~~shall be deducted from the tax base:~~

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

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

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

1 ~~4. Machinery, equipment or transmission lines used directly in~~
2 ~~producing or transmitting electrical power, but not including distribution.~~
3 ~~Transformers and control equipment used at transmission substation sites~~
4 ~~constitute equipment used in producing or transmitting electrical power.~~

5 ~~5. Neat animals, horses, asses, sheep, raptures, swine or goats used or~~
6 ~~to be used as breeding or production stock, including sales of breedings or~~
7 ~~ownership shares in such animals used for breeding or production.~~

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

12 ~~7. Aircraft, navigational and communication instruments and other~~
13 ~~accessories and related equipment sold to:~~

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

20 ~~(b) Any foreign government.~~

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

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

32 ~~9. Railroad rolling stock, rails, ties and signal control equipment~~
33 ~~used directly to transport persons or property.~~

34 ~~10. Machinery or equipment used directly to drill for oil or gas or~~
35 ~~used directly in the process of extracting oil or gas from the earth for~~
36 ~~commercial purposes.~~

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

44 ~~12. Groundwater measuring devices required under section 45-604.~~

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

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

11 ~~(b) "Self-powered implements" includes machinery and equipment that~~
12 ~~are electric-powered.~~

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

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

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

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

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

1 ~~(a) Any direct broadcast satellite television or data transmission~~
2 ~~service that operates pursuant to 47 Code of Federal Regulations part 25.~~

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

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

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

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

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

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

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

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

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

1 ~~commission, the Arizona department of environmental quality or a political~~
2 ~~subdivision of this state to prevent, monitor, control or reduce land, water~~
3 ~~or air pollution.~~

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

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

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

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

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

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

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

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

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

41 ~~2. Janitorial equipment and hand tools.~~

42 ~~3. Office equipment, furniture and supplies.~~

43 ~~4. Tangible personal property used in selling or distributing~~
44 ~~activities, other than the telecommunications transmissions described in~~
45 ~~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.~~ B. 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.~~ C. If a person is engaged in the business of selling tangible
31 personal property at both wholesale and retail, the tax under this section
32 applies only to the gross proceeds of the sales made other than at wholesale
33 if the person's books are kept so as to show separately the gross proceeds of
34 sales of each class, and if the books are not so kept, the tax under this
35 section applies to the gross proceeds of every sale so made.

36 ~~I.~~ D. 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 11. SERVICES CLASSIFICATION.

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

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

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

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

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

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

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

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

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

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

43 ~~N. There shall be deducted from the tax base the amount received from~~
44 ~~sales of solar energy devices. The retailer shall register with the~~
45 ~~department as a solar energy retailer. By registering, the retailer~~

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

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

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

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

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

21 ~~1. Operating a natural or artificial gas pipeline, for the sole~~
22 ~~purpose of fueling compressor equipment to pressurize the pipeline, is not a~~
23 ~~sale of the gas to the operator of the pipeline.~~

24 ~~2. Converting natural gas into liquefied natural gas, for the sole~~
25 ~~purpose of fueling compressor equipment used in the conversion process, is~~
26 ~~not a sale of gas to the operator of the compressor equipment.~~

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

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

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

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

6 ~~H.~~ G. In computing the tax base for the sale of a motor vehicle to a
7 nonresident of this state, if the purchaser's state of residence allows a
8 corresponding use tax exemption to the tax imposed by article 1 of this
9 chapter and the rate of the tax in the purchaser's state of residence is
10 lower than the rate prescribed in article 1 of this chapter or if the
11 purchaser's state of residence does not impose an excise tax, and the
12 nonresident has secured a special ninety day nonresident registration permit
13 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall
14 be deducted from the tax base a portion of the gross proceeds or gross income
15 from the sale so that the amount of transaction privilege tax that is paid in
16 this state is equal to the excise tax that is imposed by the purchaser's
17 state of residence on the nonexempt sale or use of the motor vehicle.

18 ~~V.~~ H. For the purposes of this section, ~~:-~~

19 ~~1. "Aircraft" includes:~~

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

23 ~~(b) Tangible personal property that is permanently affixed or attached~~
24 ~~as a component part of an aircraft that is owned or operated by a~~
25 ~~certificated or licensed carrier of persons or property.~~

26 ~~2. "Other accessories and related equipment" includes aircraft~~
27 ~~accessories and equipment such as ground service equipment that physically~~
28 ~~contact aircraft at some point during the overall carrier operation.~~

29 ~~3.~~ "selling at retail" means a sale for any purpose other than for
30 resale in the regular course of business in the form of tangible personal
31 property, but transfer of possession, lease and rental as used in the
32 definition of sale mean only such transactions as are found on investigation
33 to be in lieu of sales as defined without the words lease or rental.

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

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

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

42 ~~3. "Modifier" means a person who reworks, changes or adds to products,~~
43 ~~wares or articles of manufacture.~~

44 ~~4. "Overhead materials" means tangible personal property, the gross~~
45 ~~proceeds of sales or gross income derived from which would otherwise be~~

1 ~~included in the retail classification, and which are used or consumed in the~~
2 ~~performance of a contract, the cost of which is charged to an overhead~~
3 ~~expense account and allocated to various contracts based upon generally~~
4 ~~accepted accounting principles and consistent with government contract~~
5 ~~accounting standards.~~

6 ~~5. "Repairer" means a person who restores or renews products, wares or~~
7 ~~articles of manufacture.~~

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

17 Sec. 3. Title 42, chapter 5, article 2, Arizona Revised Statutes, is
18 amended by adding section 42-5077, to read:

19 42-5077. Services classification; exemption

20 A. THE SERVICES CLASSIFICATION INCLUDES THE FOLLOWING BUSINESSES, NOT
21 OTHERWISE CLASSIFIED FOR TAXATION UNDER THIS ARTICLE:

22 1. PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES, INCLUDING:

23 (a) LEGAL SERVICES.

24 (b) ARCHITECTURAL AND ENGINEERING SERVICES.

25 (c) SPECIALIZED DESIGN SERVICES.

26 (d) COMPUTER SERVICES, INCLUDING SOFTWARE PROGRAMMING AND MATERIAL
27 PREPARATION, MAINFRAME COMPUTER ACCESS AND PROCESSING SERVICES.

28 (e) MANAGEMENT, SCIENTIFIC AND TECHNICAL CONSULTING SERVICES.

29 (f) SCIENTIFIC RESEARCH AND DEVELOPMENT SERVICES.

30 (g) ADVERTISING, PUBLIC RELATIONS, MARKETING AND RELATED SERVICES.

31 (h) ACCOUNTING, TAX PREPARATION AND BOOKKEEPING SERVICES.

32 (i) OTHER PROFESSIONAL, SCIENTIFIC AND TECHNICAL SERVICES.

33 2. HEALTH CARE SERVICES, INCLUDING SERVICES PROVIDED BY THE FOLLOWING:

34 (a) PHYSICIANS.

35 (b) DENTISTS.

36 (c) CHIROPRACTORS.

37 (d) OPTOMETRISTS.

38 (e) MENTAL HEALTH PRACTITIONERS.

39 (f) SPECIALTY THERAPISTS.

40 (g) ALL HEALTH PRACTITIONERS.

41 (h) OUTPATIENT CARE CENTERS.

42 (i) MEDICAL AND DIAGNOSTIC LABS.

43 (j) HOME HEALTH SERVICES.

44 (k) OTHER AMBULATORY HEALTH SERVICES.

45 (l) NURSING CARE FACILITIES.

- 1 (m) RESIDENTIAL MENTAL HEALTH FACILITIES.
- 2 (n) COMMUNITY CARE FACILITIES.
- 3 (o) INDIVIDUAL AND FAMILY COUNSELORS.
- 4 (p) OTHER RESIDENTIAL CARE FACILITIES.
- 5 3. ADMINISTRATIVE AND BUSINESS SUPPORT SERVICES, INCLUDING:
- 6 (a) OFFICE ADMINISTRATIVE SERVICES.
- 7 (b) FACILITIES SUPPORT SERVICES.
- 8 (c) EMPLOYMENT PLACEMENT AND EXECUTIVE SEARCH SERVICES.
- 9 (d) SERVICES TO BUILDINGS AND DWELLINGS, INCLUDING PAINTING, REPAIR,
- 10 JANITORIAL, CLEANING AND MAID SERVICES.
- 11 (e) INVESTIGATION AND SECURITY SERVICES.
- 12 (f) ADVERTISING.
- 13 (g) CREDIT REPORTING AND COLLECTION.
- 14 (h) COMMERCIAL PHOTOGRAPHY AND PHOTOFINISHING.
- 15 (i) SECRETARIAL SERVICES.
- 16 (j) COURT REPORTING.
- 17 (k) FUMIGATION AND PEST CONTROL.
- 18 (l) TEMPORARY AND PERMANENT EMPLOYMENT AGENCY SERVICES.
- 19 (m) COMPUTER AND DATA PROCESSING SERVICES.
- 20 (n) DETECTIVE SERVICES.
- 21 (o) ARMORED CAR AND SECURITY SERVICES.
- 22 (p) LABORATORY AND FACILITY TESTING SERVICES.
- 23 (q) INDUSTRIAL SEWER AND REFUSE SERVICES.
- 24 (r) DATA PROCESSING, HOSTING AND RELATED SERVICES.
- 25 (s) OTHER ADMINISTRATIVE AND BUSINESS SUPPORT SERVICES.
- 26 4. PERSONAL CARE SERVICES, INCLUDING:
- 27 (a) BEAUTY AND BARBER SERVICES.
- 28 (b) FUNERAL, MORTUARY AND CREMATORY SERVICES.
- 29 (c) LAUNDRY, CLEANING AND GARMENT SERVICES, INCLUDING ALTERING AND
- 30 REPAIR SERVICES.
- 31 (d) PET GROOMING SERVICES.
- 32 (e) PARKING SERVICES.
- 33 (f) SHOE REPAIR AND SHOESHINE SERVICES.
- 34 (g) TAX PREPARATION SERVICES.
- 35 (h) PHOTOGRAPHIC SERVICES.
- 36 (i) DIET REDUCTION SERVICES.
- 37 (j) OTHER PERSONAL SERVICES.
- 38 5. EDUCATIONAL SERVICES, INCLUDING:
- 39 (a) BUSINESS SCHOOLS AND COMPUTER AND MANAGEMENT TRAINING.
- 40 (b) TECHNICAL AND TRADE SCHOOLS.
- 41 (c) OTHER SCHOOLS AND INSTRUCTION.
- 42 (d) PRESCHOOL SERVICES.
- 43 (e) EDUCATION SUPPORT SERVICES.

- 1 6. FINANCIAL SERVICES, INCLUDING:
- 2 (a) MORTGAGE AND NONMORTGAGE LOAN BROKER SERVICES.
- 3 (b) FINANCIAL TRANSACTION PROCESSING AND CLEARING.
- 4 (c) OTHER ACTIVITIES RELATED TO CREDIT INTERMEDIATION.
- 5 (d) SECURITIES AND COMMODITY CONTRACTS INTERMEDIATION.
- 6 (e) PORTFOLIO MANAGEMENT.
- 7 (f) INVESTMENT ADVICE.
- 8 (g) ALL OTHER FINANCIAL INVESTMENT ACTIVITIES.
- 9 7. ALL OTHER SERVICES, INCLUDING:
- 10 (a) AUTOMOBILE REPAIR AND OTHER AUTOMOTIVE SERVICES, INCLUDING
- 11 PAINTING, TIRE RECAPPING AND REPAIR, OIL REPLACEMENT, WASHING, DETAILING AND
- 12 UPHOLSTERY REPAIR SERVICES.
- 13 (b) ELECTRONIC AND PRECISION REPAIR AND MAINTENANCE.
- 14 (c) COMMERCIAL, INDUSTRIAL MACHINERY REPAIR AND MAINTENANCE.
- 15 (d) PERSONAL AND HOUSEHOLD GOODS REPAIR AND MAINTENANCE.
- 16 (e) LOCAL MESSENGERS AND LOCAL DELIVERY SERVICES.
- 17 (f) COMMERCIAL CHILD CARE AND DAY CARE SERVICES.
- 18 (g) JOB TRAINING AND VOCATIONAL REHABILITATION.
- 19 (h) BABYSITTING AND DOMESTIC SERVICES.
- 20 (i) DATING AND ESCORT SERVICES.
- 21 (j) MARRIAGE BUREAUS, WEDDING AND RECEPTION HALL SERVICES.
- 22 (k) GENEALOGICAL RESEARCH SERVICES.
- 23 (l) SHOPPING AND BUYING SERVICES
- 24 (m) ELECTRICAL REPAIR, WATCH, CLOCK AND JEWELRY REPAIR, FURNITURE
- 25 REPAIR AND UPHOLSTERY, WELDING AND ARMATURE REWINDING SERVICES.
- 26 (n) CARPET AND UPHOLSTERY CLEANING SERVICES.
- 27 (o) MOTION PICTURE PRODUCTION, DISTRIBUTION AND SERVICES.
- 28 (p) INDIVIDUAL AND FAMILY COUNSELING SERVICES, CHILD AND RESIDENTIAL
- 29 CARE AND OTHER SOCIAL SERVICES.
- 30 (q) RELIGIOUS AND MINISTERIAL SERVICES REGARDLESS OF DENOMINATION.
- 31 (r) ASTROLOGIST, PALMIST AND HYPNOTIST SERVICES.
- 32 (s) VETERINARIANS AND VETERINARY SERVICES.
- 33 (t) HUNTING AND FISHING GUIDE SERVICES.
- 34 (u) INTERIOR DESIGN SERVICES.
- 35 (v) TELEPHONE SERVICES, INCLUDING TELEPHONE ANSWERING AND
- 36 TELEMARKETING SERVICES.
- 37 (w) SWIMMING POOL SERVICES, INCLUDING CLEANING AND MAINTENANCE
- 38 SERVICES.
- 39 (x) WATER SOFTENING AND CONDITIONING SERVICES.
- 40 (y) WINDOW CLEANING SERVICES.
- 41 (z) CABLE TELEVISION SERVICES.
- 42 (aa) CHARTERED FLIGHT SERVICES.
- 43 (bb) TAXIDERMY SERVICES.
- 44 (cc) INSTALLATION SERVICES.

1 B. THE TAX BASE FOR THE SERVICES CLASSIFICATION IS THE GROSS PROCEEDS
2 OF SALES OR GROSS INCOME DERIVED FROM THE BUSINESS. THE TAX IMPOSED ON THE
3 SERVICES CLASSIFICATION DOES NOT APPLY TO THE GROSS PROCEEDS OF SALES OR
4 GROSS INCOME FROM THE FOLLOWING BUSINESS SERVICES IF THE SERVICE INVOLVES A
5 BUSINESS-TO-BUSINESS TRANSACTION:

- 6 1. LEGAL.
- 7 2. ARCHITECTURAL AND ENGINEERING.
- 8 3. MANAGEMENT, SCIENTIFIC AND TECHNICAL CONSULTING.
- 9 4. ACCOUNTING, TAX PREPARATION AND BOOKKEEPING.
- 10 5. OFFICE ADMINISTRATIVE SERVICES.
- 11 6. EMPLOYMENT PLACEMENT AND EXECUTIVE SEARCH SERVICES.
- 12 7. DATA PROCESSING, HOSTING AND RELATED SERVICES.
- 13 8. COMMERCIAL, INDUSTRIAL MACHINERY REPAIR AND MAINTENANCE.
- 14 9. BUSINESS SUPPORT SERVICES.

15 Sec. 4. Repeal

16 A. Title 42, chapter 5, article 3, Arizona Revised Statutes, is
17 repealed.

18 B. Section 42-5159, Arizona Revised Statutes, is repealed.

19 Sec. 5. Section 43-206, Arizona Revised Statutes, is amended to read:

20 43-206. Urban revenue sharing fund; allocation; distribution

21 A. There is established an urban revenue sharing fund. ~~IN FISCAL YEAR~~
22 ~~2017-2018~~, the fund shall consist of ~~an amount equal to fifteen per cent of~~
23 ~~the net proceeds of the state income taxes for the fiscal year two years~~
24 ~~preceding the current fiscal year~~ \$424,400,000 APPROPRIATED FROM THE STATE
25 GENERAL FUND AND EACH FISCAL YEAR THEREAFTER THIS AMOUNT SHALL BE INCREASED
26 BY ____ PER CENT. The URBAN REVENUE SHARING fund shall be distributed to
27 incorporated cities and towns as provided in this section, except that a city
28 or town shall receive at least an amount equal to what a city or town with a
29 population of fifteen hundred or more persons would receive. The transfer of
30 net proceeds prescribed by section 49-282, subsection B does not affect the
31 calculation of net proceeds prescribed by this subsection.

32 B. Each city or town shall share in the urban revenue sharing fund in
33 the proportion that the population of each bears to the population of all.
34 Except as provided by sections 42-5033 and 42-5033.01, the population of a
35 city or town as determined by the most recent United States decennial census
36 plus any revisions to the decennial census certified by the United States
37 bureau of the census shall be used as the basis for apportioning monies
38 pursuant to this subsection.

39 C. The treasurer, upon instruction from the department, shall
40 transmit, no later than the tenth day of each month, to each city or town an
41 amount equal to one-twelfth of that city's or town's total entitlement for
42 the current fiscal year from the urban revenue sharing fund as determined by
43 the department.

1 D. A newly incorporated city or town shall share in the urban revenue
2 sharing fund beginning the first month of the first full fiscal year
3 following incorporation.

4 E. On receipt of a certificate of default from the greater Arizona
5 development authority pursuant to section 41-2257 or 41-2258, the state
6 treasurer, to the extent not otherwise expressly prohibited by law, shall
7 withhold from the next succeeding distribution of monies pursuant to this
8 section due to the city or town the amount specified in the certificate of
9 default and immediately deposit the amount withheld in the greater Arizona
10 development authority revolving fund. The state treasurer shall continue to
11 withhold and deposit the monies until the authority certifies to the state
12 treasurer that the default has been cured. In no event shall the state
13 treasurer withhold any amount that is necessary, as certified by the
14 defaulting political subdivision to the state treasurer and the authority, to
15 make any required deposits then due for the payment of principal and interest
16 on bonds of the political subdivision that were issued prior to the date of
17 the loan repayment agreement or bonds and that have been secured by a pledge
18 of distributions made pursuant to this section.

19 Sec. 6. Repeal

20 Title 43, chapters 10 and 11, Arizona Revised Statutes, are repealed.

21 Sec. 7. Conforming legislation

22 The legislative council staff shall prepare proposed legislation
23 conforming the Arizona Revised Statutes to the provisions of this act for
24 consideration in the fifty-first legislature, first regular session.

25 Sec. 8. Effective date

26 This act is effective and applies to taxable years beginning from and
27 after December 31, 2012.