

REFERENCE TITLE: revenue; budget reconciliation; 2012-2013

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

HB 2855

Introduced by
Representative Kavanagh (with permission of Committee on Rules)

AN ACT

AMENDING SECTIONS 5-113.01, 5-554, 5-555, 5-571, 5-572, 8-524, 15-1682.03, 17-297, 17-298, 36-274, 41-1965, 42-5061, 42-5159, 43-405, 43-1022, 44-6552 AND 48-6636, ARIZONA REVISED STATUTES; RELATING TO REVENUE BUDGET RECONCILIATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 5-113.01, Arizona Revised Statutes, is amended to
3 read:

4 5-113.01. Racing regulation fund; exemption

5 The racing regulation fund is established. All revenues derived from
6 permittees, permits and licenses pursuant to section 5-104, subsection F and
7 section 5-230 **AND ANY GRANTS OR DONATIONS RECEIVED BY THE DEPARTMENT** shall be
8 deposited, pursuant to sections 35-146 and 35-147, in the racing regulation
9 fund. The department shall administer the racing regulation fund. Monies in
10 the racing regulation fund are subject to legislative appropriation ~~to the~~
11 ~~department~~ **AND ARE** to be used by the department to support the mission of the
12 department. The racing regulation fund is exempt from the provisions of
13 section 35-190 relating to lapsing of appropriations.

14 Sec. 2. Section 5-554, Arizona Revised Statutes, is amended to read:

15 5-554. Commission; director; powers and duties; definitions

16 A. The commission shall meet with the director not less than once each
17 quarter to make recommendations and set policy, receive reports from the
18 director and transact other business properly brought before the commission.

19 B. The commission shall oversee a state lottery to produce the maximum
20 amount of net revenue consonant with the dignity of the state. To achieve
21 these ends, the commission shall authorize the director to adopt rules in
22 accordance with title 41, chapter 6. Rules adopted by the director may
23 include provisions relating to the following:

24 1. Subject to the approval of the commission, the types of lottery
25 games and the types of game play-styles to be conducted.

26 2. The method of selecting the winning tickets or shares for
27 noncomputerized online games, except that no method may be used that, in
28 whole or in part, depends on the results of a dog race, a horse race or any
29 sporting event.

30 3. The manner of payment of prizes to the holders of winning tickets
31 or shares, including providing for payment by the purchase of annuities in
32 the case of prizes payable in installments, except that the commission staff
33 shall examine claims and may not pay any prize based on altered, stolen or
34 counterfeit tickets or based on any tickets that fail to meet established
35 validation requirements, including rules stated on the ticket or in the
36 published game rules, and confidential validation tests applied consistently
37 by the commission staff. No particular prize in a lottery game may be paid
38 more than once, and in the event of a binding determination that more than
39 one person is entitled to a particular prize, the sole remedy of the
40 claimants is the award to each of them of an equal portion of the single
41 prize.

42 4. The method to be used in selling tickets or shares, except that no
43 elected official's name may be printed on such tickets or shares. The
44 overall estimated odds of winning some prize or some cash prize, as
45 appropriate, in a given game shall be printed on each ticket or share.

1 5. The licensing of agents to sell tickets or shares, except that a
2 person who is under eighteen years of age shall not be licensed as an agent.
3 6. The manner and amount of compensation to be paid licensed sales
4 agents necessary to provide for the adequate availability of tickets or
5 shares to prospective buyers and for the convenience of the public, including
6 provision for variable compensation based on sales volume.
7 7. Matters necessary or desirable for the efficient and economical
8 operation and administration of the lottery and for the convenience of the
9 purchasers of tickets or shares and the holders of winning tickets or shares.
10 C. The commission shall authorize the director to issue orders and
11 shall approve orders issued by the director for the necessary operation of
12 the lottery. Orders issued under this subsection may include provisions
13 relating to the following:
14 1. The prices of tickets or shares in lottery games.
15 2. The themes, game play-styles, and names of lottery games and
16 definitions of symbols and other characters used in lottery games, except
17 that each ticket or share in a lottery game shall bear a unique
18 distinguishable serial number.
19 3. The sale of tickets or shares at a discount for promotional
20 purposes.
21 4. The prize structure of lottery games, including the number and size
22 of prizes available. Available prizes may include free tickets in lottery
23 games and merchandise prizes.
24 5. The frequency of drawings, if any, or other selections of winning
25 tickets or shares, except that:
26 (a) All drawings shall be open to the public.
27 (b) The actual selection of winning tickets or shares may not be
28 performed by an employee or member of the commission.
29 (c) Noncomputerized online game drawings shall be witnessed by an
30 independent observer.
31 6. Requirements for eligibility for participation in grand drawings or
32 other runoff drawings, including requirements for the submission of evidence
33 of eligibility within a shorter period than that provided for claims by
34 section 5-568.
35 7. Incentive and bonus programs designed to increase sales of lottery
36 tickets or shares and to produce the maximum amount of net revenue for this
37 state.
38 D. Notwithstanding title 41, chapter 6 and subsection B of this
39 section, the director, subject to the approval of the commission, may
40 establish a policy, procedure or practice that relates to an existing online
41 game or a new online game that is the same type and has the same type of game
42 play-style as an online game currently being conducted by the lottery or may
43 modify an existing rule for an existing online game or a new online game that
44 is the same type and has the same type of game play-style as an online game
45 currently being conducted by the lottery, including establishing or modifying

1 the matrix for an online game by giving notice of the establishment or
2 modification at least thirty days before the effective date of the
3 establishment or modification.

4 E. The commission shall maintain and make the following information
5 available for public inspection at its offices during regular business hours:

6 1. A detailed listing of the estimated number of prizes of each
7 particular denomination expected to be awarded in any instant game currently
8 on sale.

9 2. After the end of the claim period prescribed by section 5-568, a
10 listing of the total number of tickets or shares sold and the number of
11 prizes of each particular denomination awarded in each lottery game.

12 3. Definitions of all play symbols and other characters used in each
13 lottery game and instructions on how to play and how to win each lottery
14 game.

15 F. Any information that is maintained by the commission and that would
16 assist a person in locating or identifying a winning ticket or share or that
17 would otherwise compromise the integrity of any lottery game is deemed
18 confidential and is not subject to public inspection.

19 ~~G. The commission, in addition to other games authorized by this
20 article, shall establish two special games for each year to be conducted
21 concurrently with other lottery games authorized under subsection B of this
22 section. The monies for prizes, for operating expenses and for payment to
23 the Arizona competes fund, as provided in section 5-572, subsection B, shall
24 be accounted for separately as nearly as practicable in the lottery
25 commission's general accounting system. The monies shall be derived from the
26 revenues of the special games, and monies for prizes do not become an expense
27 to the lottery commission's annual appropriation as provided in section
28 5-555, subsection D and section 5-572, subsection I. Monies saved from the
29 revenues of the special games, by reason of operating efficiencies, shall
30 become other revenue of the lottery commission and revert to the state
31 general fund.~~

32 ~~H.~~ G. The commission, in addition to other games authorized by this
33 article, may establish multistate lottery games to be conducted concurrently
34 with other lottery games authorized under ~~subsections~~ SUBSECTION B and ~~G~~ of
35 this section. The monies for prizes, for operating expenses and for payment
36 to the state general fund shall be accounted for separately as nearly as
37 practicable in the lottery commission's general accounting system. The
38 monies shall be derived from the revenues of multistate lottery games.

39 ~~I.~~ H. The commission, in addition to other games authorized by this
40 article, shall establish special instant ticket games with play areas
41 protected by paper tabs designated for use by charitable organizations. The
42 monies for prizes and for operating expenses shall be accounted for
43 separately as nearly as practicable in the lottery commission's general
44 accounting system. Monies saved from the revenues of the special games, by

1 reason of operating efficiencies, shall become other revenue of the lottery
2 commission and revert to the state general fund.

3 ~~I.~~ I. The commission or director shall not establish or operate any
4 online or electronic keno game or any game played on the internet.

5 ~~K.~~ J. The commission or director shall not establish or operate any
6 lottery game or any type of game play-style, either individually or in
7 combination, that uses gaming devices or video lottery terminals as those
8 terms are used in section 5-601.02, including monitor games that produce or
9 display outcomes or results more than once per hour.

10 ~~L.~~ K. The director shall print, in a prominent location on each
11 lottery ticket or share, a statement that help is available if a person has a
12 problem with gambling and a toll-free telephone number where problem gambling
13 assistance is available. The director shall require all licensed agents to
14 post a sign with the statement that help is available if a person has a
15 problem with gambling and the toll-free telephone number at the point of sale
16 as prescribed and supplied by the director. The requirements of this
17 subsection apply to tickets and shares printed after July 18, 2000.

18 ~~M.~~ L. For the purposes of this section:

19 1. "Charitable organization" means any nonprofit organization,
20 including not more than one auxiliary of that organization, that has operated
21 for charitable purposes in this state for at least two years before
22 submitting a license application under this article.

23 2. "Game play-style" means the process or procedure that a player must
24 follow to determine if a lottery ticket or share is a winning ticket or
25 share.

26 3. "Matrix" means the odds of winning a prize and the prize payout
27 amounts in a given game.

28 Sec. 3. Section 5-555, Arizona Revised Statutes, is amended to read:

29 5-555. Apportionment of revenue

30 A. Not more than eighteen and one-half per cent of the total annual
31 revenues accruing from the sale of lottery tickets or shares and from all
32 other sources and not more than thirty-five per cent of the total annual
33 revenues from the sale of special instant games authorized under section
34 5-554, subsection ~~I.~~ H shall be deposited in the state lottery fund
35 established by section 5-571 to be expended for the following:

36 1. The payment of costs incurred in the operation and administration
37 of the lottery, including the expenses of the commission and the costs
38 resulting from any contract or contracts entered into for consulting or
39 operational services.

40 2. Independent audits, which shall be performed annually in addition
41 to the audits required by section 5-574.

42 3. Incentive programs for lottery sales agents and lottery employees.

43 4. Payment of compensation to licensed sales agents necessary to
44 provide for the adequate availability of tickets or services to prospective
45 buyers and for the convenience of the public. Except as otherwise provided

1 in this subsection, compensation of licensed sales agents shall be at least
2 five and one-half per cent but not more than eight per cent of the price of
3 each ticket or share that a retail sales agent sells in instant games and
4 online games, less the price of any tickets or shares that are voided.

5 5. The payment of reasonable fees to redemption agents as authorized
6 by section 5-569.

7 6. The purchase or lease of lottery equipment, tickets and materials.

8 7. Compensation of a licensed sales agent who is designated as a
9 charitable organization as defined in section 5-554. Compensation shall be
10 twenty per cent of the price of each ticket from a special instant game
11 authorized under section 5-554, subsection ~~I~~ H and shall be an offset
12 against the sale of the ticket.

13 B. Not less than fifty per cent of the total annual revenues accruing
14 from the sale of lottery tickets or shares shall be deposited in the state
15 lottery prize fund established by section 5-573 for payment of prizes to the
16 holders of winning tickets or shares or for other purposes provided for in
17 section 5-568.

18 C. All other revenues accruing from the sale of lottery tickets or
19 shares in online games or instant games shall be deposited in the state
20 lottery fund established by section 5-571 to be used as prescribed by section
21 5-572.

22 D. ~~Except for~~ Monies for prizes expended ~~as provided in section 5-554,~~
23 ~~subsection G and section 41-1545.01, monies expended~~ under subsection A of
24 this section shall be subject to legislative appropriation.

25 Sec. 4. Section 5-571, Arizona Revised Statutes, is amended to read:
26 5-571. State lottery fund

27 The state lottery fund is established consisting of all revenues
28 received from the sale of lottery tickets or shares, including revenues from
29 games authorized pursuant to section 5-554, ~~subsections SUBSECTION G and H,~~
30 the fees, if any, charged pursuant to section 5-554 and all other monies
31 credited or transferred from any other fund or source pursuant to statute,
32 with the exception of those monies apportioned for payment of prizes and
33 deposited as provided in section 5-573.

34 Sec. 5. Section 5-572, Arizona Revised Statutes, is amended to read:
35 5-572. Use of monies in state lottery fund; report

36 A. If there are any bonds or bond related obligations payable from the
37 state lottery revenue bond debt service fund, the state lottery revenue bond
38 debt service fund shall be secured by a first lien on the monies in the state
39 lottery fund after the payment of operating costs of the lottery, as
40 prescribed in section 5-555, subsection A, paragraph 1, until the state
41 lottery bond debt service fund contains sufficient monies to meet all the
42 requirements for the current period as required by the bond documents. Debt
43 service for revenue bonds issued pursuant to this chapter shall be paid first
44 from monies that would have otherwise been deposited pursuant to this section
45 in the state general fund. After the requirements for the current period

1 have been satisfied as required by the bond documents, the monies in the
2 state lottery fund shall be expended for the expenses of the commission
3 incurred in carrying out its powers and duties and in the operation of the
4 lottery.

5 ~~B. Of the monies remaining in the state lottery fund each fiscal year~~
6 ~~after appropriations and deposits authorized in subsection A of this section,~~
7 ~~three million five hundred thousand dollars shall be deposited in the Arizona~~
8 ~~competes fund established by section 41-1545.01.~~

9 ~~C.~~ B. Of the monies remaining in the state lottery fund each fiscal
10 year after appropriations and deposits authorized in ~~subsections~~ SUBSECTION A
11 ~~and B~~ of this section, ten million dollars shall be deposited in the Arizona
12 game and fish commission heritage fund established by section 17-297.

13 ~~D.~~ C. Of the monies remaining in the state lottery fund each fiscal
14 year after appropriations and deposits authorized in subsections A, ~~AND~~ B
15 ~~and C~~ of this section, five million dollars shall be allocated to the
16 department of economic security for the healthy families program established
17 by section 8-701, four million dollars shall be allocated to the Arizona
18 board of regents for the Arizona area health education system established by
19 section 15-1643, three million dollars shall be allocated to the department
20 of health services to fund the teenage pregnancy prevention programs
21 established in Laws 1995, chapter 190, sections 2 and 3, two million dollars
22 shall be allocated to the department of health services for the health start
23 program established by section 36-697, two million dollars shall be deposited
24 in the disease control research fund established by section 36-274 and one
25 million dollars shall be allocated to the department of health services for
26 the federal women, infants and children food program. The allocations in
27 this subsection shall be adjusted annually according to changes in the GDP
28 price deflator as defined in section 41-563 and the allocations are exempt
29 from the provisions of section 35-190 relating to lapsing of appropriations.

30 If there are not sufficient monies available pursuant to this subsection,
31 the allocation of monies for each program shall be reduced on a pro rata
32 basis.

33 ~~E.~~ D. If the state lottery director determines that monies available
34 to the state general fund may not equal ~~eighty million six~~ EIGHTY-FOUR
35 MILLION ONE hundred fifty thousand dollars in a fiscal year, the director
36 shall not authorize deposits to the Arizona game and fish commission heritage
37 fund pursuant to subsection B of this section until the deposits to the state
38 general fund equal ~~eighty million six~~ EIGHTY-FOUR MILLION ONE hundred fifty
39 thousand dollars in a fiscal year.

40 ~~F.~~ E. Of the monies remaining in the state lottery fund each fiscal
41 year after appropriations and deposits authorized in subsections A through ~~E~~
42 D of this section, one million dollars or the remaining balance in the fund,
43 whichever is less, is appropriated to the department of economic security for
44 grants to nonprofit organizations, including faith based organizations, for
45 homeless emergency and transitional shelters and related support

1 services. The department of economic security shall submit a report on the
2 amounts, recipients, purposes and results of each grant to the governor, the
3 speaker of the house of representatives and the president of the senate on or
4 before December 31 of each year for the prior fiscal year and shall provide a
5 copy of this report to the secretary of state.

6 ~~G.~~ F. Of the monies remaining in the state lottery fund each fiscal
7 year after appropriations and deposits authorized in subsections A through ~~F~~
8 ~~E~~ of this section, and after a total of at least ~~ninety-six million one~~
9 ~~NINETY-NINE MILLION SIX~~ hundred forty thousand dollars has been deposited in
10 the state general fund, the remaining balance in the state lottery fund shall
11 be deposited in the university capital improvement lease-to-own and bond fund
12 established by section 15-1682.03, up to a maximum of eighty per cent of the
13 total annual payments of lease-to-own and bond agreements entered into by the
14 Arizona board of regents.

15 ~~H.~~ G. All monies remaining in the state lottery fund after the
16 appropriations and deposits authorized in this section shall be deposited in
17 the state general fund.

18 ~~I.~~ H. Except for monies expended for ~~prizes as provided in section~~
19 ~~5-554, subsection G and section 41-1545.01 and for~~ debt service of revenue
20 bonds as provided in subsection A of this section, monies expended under
21 subsection A of this section are subject to legislative appropriation.

22 Sec. 6. Section 8-524, Arizona Revised Statutes, is amended to read:
23 8-524. Special advocate fund

24 A. The court appointed special advocate fund is established consisting
25 of monies received pursuant to section ~~5-518~~ 5-568. The fund is subject to
26 annual legislative appropriation. Monies appropriated by the legislature
27 from the court appointed special advocate fund for the court appointed
28 special advocate program shall be used by the supreme court to operate,
29 improve, maintain and enhance the program.

30 B. A court may request fund monies by submitting a program plan and
31 funding request to the supreme court pursuant to rules adopted by the court.

32 Sec. 7. Section 15-1682.03, Arizona Revised Statutes, is amended to
33 read:

34 15-1682.03. University capital improvement lease-to-own and
35 bond fund; lease-to-own and bond capital
36 improvement agreements

37 A. The university capital improvement lease-to-own and bond fund is
38 established consisting of the monies provided by the Arizona board of regents
39 pursuant to this section, monies deposited pursuant to section ~~5-522~~ 5-572
40 and monies appropriated by the legislature. The board shall administer the
41 fund. On notice from the board, the state treasurer shall invest and divest
42 monies in the fund as provided by section 35-313, and monies earned from
43 investment shall be credited to the fund. Monies in the fund are exempt from
44 the provisions of section 35-190 relating to lapsing of appropriations.

1 B. Through revenues of the state university system, the board shall
2 annually provide monies to the fund of at least twenty per cent of the
3 aggregate annual payments of lease-to-own and bond agreements entered into by
4 the board pursuant to this section.

5 C. The board shall distribute monies in the fund to make payments
6 pursuant to lease-to-own and bond agreements entered into by the board
7 pursuant to this section. The board may enter into lease-to-own and bond
8 agreements for the purposes of building renewal projects and new facilities.
9 New lease-to-own and bond agreements entered into pursuant to this section
10 shall not exceed one hundred sixty-seven million six hundred seventy-one
11 thousand two hundred dollars in fiscal year 2008-2009 and four hundred
12 million dollars in fiscal year 2009-2010. The board may enter into
13 lease-to-own and bond transactions up to a maximum of eight hundred million
14 dollars.

15 D. Notwithstanding section ~~5-522~~ 5-572, subsection G, the amount of
16 state lottery revenues distributed to the university capital improvement
17 lease-to-own and bond fund in fiscal year 2009-2010 and fiscal year 2010-2011
18 shall not exceed an amount sufficient for up to eighty per cent of the annual
19 payments of the first one hundred sixty-seven million six hundred seventy-one
20 thousand two hundred dollars of new lease-to-own and bond agreements entered
21 into pursuant to this section. The full amount of state lottery revenues
22 distributed to the university capital improvement lease-to-own and bond fund
23 pursuant to section ~~5-522~~ 5-572, subsection G shall be made available to the
24 board for the remaining new lease-to-own and bond agreements up to eight
25 hundred million dollars beginning in fiscal year 2011-2012.

26 E. In entering into lease-to-own and bond agreements pursuant to this
27 section, the board shall not obligate this state to provide any additional
28 monies from the state lottery fund above the amounts authorized in this
29 section and section ~~5-522~~ 5-572, subsection G. In entering into lease-to-own
30 and bond agreements pursuant to this section, the board shall not obligate
31 any state general fund monies.

32 Sec. 8. Section 17-297, Arizona Revised Statutes, is amended to read:
33 17-297. Arizona game and fish commission heritage fund

34 A. The Arizona game and fish commission heritage fund is established
35 consisting of monies deposited from the state lottery fund pursuant to
36 section ~~5-522~~ 5-572 and interest earned on those monies.

37 B. The fund shall be administered by the Arizona game and fish
38 commission and is not subject to appropriation and expenditures from the fund
39 are not subject to outside approval notwithstanding any provision of section
40 17-241 or 17-261 or any other statutory provision to the contrary. Monies
41 received pursuant to section ~~5-522~~ 5-572 shall be deposited directly with the
42 Arizona game and fish commission heritage fund. On notice from the Arizona
43 state game and fish commission, the state treasurer shall invest and divest
44 monies in the fund as provided by section 35-313, and monies earned from
45 investment shall be credited to the fund.

1 C. All monies in the Arizona game and fish commission heritage fund
2 shall be spent by the Arizona game and fish commission only for the purposes
3 and in the percentages set forth in this article. In no event shall any
4 monies in the fund revert to the state general fund and monies in the fund
5 are exempt from the provisions of section 35-190 relating to lapsing of
6 appropriations.

7 D. The commission shall not use its rights of eminent domain to
8 acquire property to be paid for with money from the Arizona game and fish
9 commission heritage fund.

10 Sec. 9. Section 17-298, Arizona Revised Statutes, is amended to read:

11 17-298. Expenditures from fund; purpose and amounts; annual
12 report

13 A. MONIES RECEIVED PURSUANT TO SECTION 5-572 SHALL BE SPENT AS
14 FOLLOWS:

15 ~~A. 1. Five per cent of the monies received pursuant to section 5-522~~
16 ~~shall be spent~~ on public access, including maintenance and operation
17 expenses.

18 ~~B. 2. Sixty per cent of the monies received pursuant to section 5-522~~
19 ~~shall be spent~~ on the identification, inventory, acquisition, protection and
20 management, including maintenance and operations, of sensitive habitat. At
21 least forty per cent of the monies available under this ~~subsection~~ PARAGRAPH
22 shall be spent on the acquisition of sensitive habitat utilized by
23 endangered, threatened and candidate species. The commission may dispose of
24 any lands acquired for use as habitat by an endangered, threatened or
25 candidate species under this ~~subsection~~ PARAGRAPH when the species no longer
26 qualifies as an endangered, threatened or candidate species. The Arizona
27 game and fish commission shall dispose of the land in a manner consistent
28 with the preservation of the species of concern. The disposal may include
29 conservation easements and fee simple transfers with associated instruments
30 of protection. The commission shall follow the guidelines established
31 pursuant to section 37-803 relating to the disposition of real property by a
32 state agency. In addition, disposal shall include a written agreement
33 between the commission and the purchaser requiring the purchaser to
34 incorporate management actions to ensure proper maintenance of the species of
35 concern. Management actions may include maintenance of habitat, selective
36 control of nonnative species, maintenance of genetic viability, monitoring of
37 populations and habitat, coordinating conservation activities, funding
38 conservation actions and assessing conservation progress.

39 ~~C. 3. Fifteen per cent of the monies received pursuant to section~~
40 ~~5-522 shall be spent~~ on habitat evaluation or habitat protection.

41 ~~D. 4. Fifteen per cent of the monies received pursuant to section~~
42 ~~5-522 shall be spent~~ on urban wildlife and urban wildlife habitat programs.

43 ~~E. 5. Five per cent of the monies received pursuant to section 5-522~~
44 ~~shall be spent~~ on environmental education.

1 ~~F.~~ B. All monies earned as interest on monies received pursuant to
2 section ~~5-522~~ 5-572 shall be spent only in the percentages and for the
3 purposes described in ~~subsections A through E~~ SUBSECTION A of this section or
4 for costs of administering the Arizona game and fish commission heritage fund
5 in such amounts as determined by the Arizona game and fish commission.

6 ~~G.~~ C. On or before December 31 each year the commission shall submit
7 its annual report to the president of the senate, the speaker of the house of
8 representatives and the chairmen of the senate and house of representatives
9 committees on natural resources and agriculture, or their successor
10 committees. The annual report shall include information on:

11 1. The amount of monies spent or encumbered in the fund during the
12 preceding fiscal year and a summary of the projects, activities and
13 expenditures relating to:

14 (a) Property acquisition.

15 (b) Identification, inventory, protection and management of sensitive
16 habitat.

17 (c) Habitat evaluation and protection.

18 (d) Urban wildlife.

19 (e) Environmental education.

20 (f) Public access.

21 2. The number and location of parcels of property acquired during the
22 preceding fiscal year.

23 3. For personal and real properties acquired with fund monies during
24 the preceding fiscal year, the amount of property tax revenue paid to each
25 taxing jurisdiction during the last full tax year prior to acquisition.

26 4. The amount of money spent from the fund during the preceding fiscal
27 year for employee personal services.

28 5. The number of full-time employees employed in the preceding fiscal
29 year in connection with property acquisition, including survey, appraisal and
30 other related activities.

31 6. The total number of full-time employees employed in the preceding
32 fiscal year for the programs listed in ~~subsections A through E~~ SUBSECTION A
33 of this section.

34 7. A list of the grants awarded during the preceding fiscal year
35 including information on the recipients, purposes and amounts.

36 Sec. 10. Section 36-274, Arizona Revised Statutes, is amended to read:

37 36-274. Disease control research fund; lapsing; investment

38 A. The disease control research fund is established consisting of
39 monies received from the state lottery fund pursuant to section ~~5-522~~ 5-572,
40 subsection D, monies appropriated by the legislature and any gifts,
41 contributions or other monies received by the department from any source to
42 carry out the purposes of this article, except monies from the health
43 research fund established by section 36-275. The department shall administer
44 the disease control research fund.

1 B. The department may expend monies in the disease control research
2 fund for projects or services pursuant to section 36-273 and for expenses
3 incurred by the department in carrying out the purposes of this article,
4 including filing applications and maintaining patents.

5 C. As a condition of each contract for cancer research projects or
6 services, the department shall require that the recipient shall not use fund
7 monies for any purpose, including any administrative or building purposes,
8 other than the specific cancer research grant project contract.

9 D. Monies in the disease control research fund are exempt from the
10 provisions of section 35-190 relating to lapsing of appropriations.

11 E. On notice from the department, the state treasurer shall invest and
12 divest monies in the disease control research fund as provided by section
13 35-313, and monies earned from investment shall be credited to the fund.

14 Sec. 11. Section 41-1965, Arizona Revised Statutes, is amended to
15 read:

16 41-1965. Eligibility of lottery prize winner to receive
17 assistance; determination

18 On receipt of the information provided by the state lottery commission
19 pursuant to section ~~5-523~~ 5-573, subsection C, the director shall determine
20 if the person is receiving assistance from any financial assistance program
21 administered by the department. If the person is receiving assistance, the
22 director shall promptly redetermine the eligibility of that person to receive
23 the assistance.

24 Sec. 12. Section 42-5061, Arizona Revised Statutes, is amended to
25 read:

26 42-5061. Retail classification; definitions

27 A. The retail classification is comprised of the business of selling
28 tangible personal property at retail. The tax base for the retail
29 classification is the gross proceeds of sales or gross income derived from
30 the business. The tax imposed on the retail classification does not apply to
31 the gross proceeds of sales or gross income from:

32 1. Professional or personal service occupations or businesses which
33 involve sales or transfers of tangible personal property only as
34 inconsequential elements.

35 2. Services rendered in addition to selling tangible personal property
36 at retail.

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

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

- 1 5. Sales to persons engaged in business classified under the
2 restaurant classification of articles used by human beings for food, drink or
3 condiment, whether simple, mixed or compounded.
- 4 6. Business activity which is properly included in any other business
5 classification which is taxable under this article.
- 6 7. The sale of stocks and bonds.
- 7 8. Drugs and medical oxygen, including delivery hose, mask or tent,
8 regulator and tank, on the prescription of a member of the medical, dental or
9 veterinarian profession who is licensed by law to administer such substances.
- 10 9. Prosthetic appliances as defined in section 23-501 prescribed or
11 recommended by a health professional who is licensed pursuant to title 32,
12 chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.
- 13 10. Insulin, insulin syringes and glucose test strips.
- 14 11. Prescription eyeglasses or contact lenses.
- 15 12. Hearing aids as defined in section 36-1901.
- 16 13. Durable medical equipment which has a centers for medicare and
17 medicaid services common procedure code, is designated reimbursable by
18 medicare, is prescribed by a person who is licensed under title 32, chapter
19 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and
20 customarily used to serve a medical purpose, is generally not useful to a
21 person in the absence of illness or injury and is appropriate for use in the
22 home.
- 23 14. Sales to nonresidents of this state for use outside this state if
24 the vendor ships or delivers the tangible personal property out of this
25 state.
- 26 15. Food, as provided in and subject to the conditions of article 3 of
27 this chapter and section 42-5074.
- 28 16. Items purchased with United States department of agriculture food
29 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
30 958) or food instruments issued under section 17 of the child nutrition act
31 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
32 section 1786).
- 33 17. Textbooks by any bookstore that are required by any state
34 university or community college.
- 35 18. Food and drink to a person who is engaged in business which is
36 classified under the restaurant classification and which provides such food
37 and drink without monetary charge to its employees for their own consumption
38 on the premises during the employees' hours of employment.
- 39 19. Articles of food, drink or condiment and accessory tangible
40 personal property to a school district or charter school if such articles and
41 accessory tangible personal property are to be prepared and served to persons
42 for consumption on the premises of a public school within the district or on
43 the premises of the charter school during school hours.
- 44 20. Lottery tickets or shares pursuant to title 5, chapter ~~5~~ 5.1,
45 article 1.

1 21. The sale of precious metal bullion and monetized bullion to the
2 ultimate consumer, but the sale of coins or other forms of money for
3 manufacture into jewelry or works of art is subject to the tax. For the
4 purposes of this paragraph:

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

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

12 22. Motor vehicle fuel and use fuel that are subject to a tax imposed
13 under title 28, chapter 16, article 1, sales of use fuel to a holder of a
14 valid single trip use fuel tax permit issued under section 28-5739, sales of
15 aviation fuel that are subject to the tax imposed under section 28-8344 and
16 sales of jet fuel that are subject to the tax imposed under article 8 of this
17 chapter.

18 23. Tangible personal property sold to a person engaged in the business
19 of leasing or renting such property under the personal property rental
20 classification if such property is to be leased or rented by such person.

21 24. Tangible personal property sold in interstate or foreign commerce
22 if prohibited from being so taxed by the Constitution of the United States or
23 the constitution of this state.

24 25. Tangible personal property sold to:

25 (a) A qualifying hospital as defined in section 42-5001.

26 (b) A qualifying health care organization as defined in section
27 42-5001 if the tangible personal property is used by the organization solely
28 to provide health and medical related educational and charitable services.

29 (c) A qualifying health care organization as defined in section
30 42-5001 if the organization is dedicated to providing educational,
31 therapeutic, rehabilitative and family medical education training for blind,
32 visually impaired and multihandicapped children from the time of birth to age
33 twenty-one.

34 (d) A qualifying community health center as defined in section
35 42-5001.

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

39 (f) For taxable periods beginning from and after June 30, 2001, a
40 nonprofit charitable organization that has qualified under section 501(c)(3)
41 of the internal revenue code and that provides residential apartment housing
42 for low income persons over sixty-two years of age in a facility that
43 qualifies for a federal housing subsidy, if the tangible personal property is
44 used by the organization solely to provide residential apartment housing for

1 low income persons over sixty-two years of age in a facility that qualifies
2 for a federal housing subsidy.

3 26. Magazines or other periodicals or other publications by this state
4 to encourage tourist travel.

5 27. Tangible personal property sold to a person that is subject to tax
6 under this article by reason of being engaged in business classified under
7 the prime contracting classification under section 42-5075, or to a
8 subcontractor working under the control of a prime contractor that is subject
9 to tax under article 1 of this chapter, if the property so sold is any of the
10 following:

11 (a) Incorporated or fabricated by the person into any real property,
12 structure, project, development or improvement as part of the business.

13 (b) Used in environmental response or remediation activities under
14 section 42-5075, subsection B, paragraph 6.

15 (c) Incorporated or fabricated by the person into any lake facility
16 development in a commercial enhancement reuse district under conditions
17 prescribed for the deduction allowed by section 42-5075, subsection B,
18 paragraph 8.

19 28. The sale of a motor vehicle to:

20 (a) A nonresident of this state if the purchaser's state of residence
21 does not allow a corresponding use tax exemption to the tax imposed by
22 article 1 of this chapter and if the nonresident has secured a special ninety
23 day nonresident registration permit for the vehicle as prescribed by sections
24 28-2154 and 28-2154.01.

25 (b) An enrolled member of an Indian tribe who resides on the Indian
26 reservation established for that tribe.

27 29. Tangible personal property purchased in this state by a nonprofit
28 charitable organization that has qualified under section 501(c)(3) of the
29 United States internal revenue code and that engages in and uses such
30 property exclusively in programs for mentally or physically handicapped
31 persons if the programs are exclusively for training, job placement,
32 rehabilitation or testing.

33 30. Sales of tangible personal property by a nonprofit organization
34 that is exempt from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6)
35 of the internal revenue code if the organization is associated with a major
36 league baseball team or a national touring professional golfing association
37 and no part of the organization's net earnings inures to the benefit of any
38 private shareholder or individual.

39 31. Sales of commodities, as defined by title 7 United States Code
40 section 2, that are consigned for resale in a warehouse in this state in or
41 from which the commodity is deliverable on a contract for future delivery
42 subject to the rules of a commodity market regulated by the United States
43 commodity futures trading commission.

44 32. Sales of tangible personal property by a nonprofit organization
45 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),

1 501(c)(7) or 501(c)(8) of the internal revenue code if the organization
2 sponsors or operates a rodeo featuring primarily farm and ranch animals and
3 no part of the organization's net earnings inures to the benefit of any
4 private shareholder or individual.

5 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other
6 propagative material to persons who use those items to commercially produce
7 agricultural, horticultural, viticultural or floricultural crops in this
8 state.

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

14 35. Sales of tangible personal property that is shipped or delivered
15 directly to a destination outside the United States for use in that foreign
16 country.

17 36. Sales of natural gas or liquefied petroleum gas used to propel a
18 motor vehicle.

19 37. Paper machine clothing, such as forming fabrics and dryer felts,
20 sold to a paper manufacturer and directly used or consumed in paper
21 manufacturing.

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

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

1 40. Through December 31, 1994, personal property liquidation
2 transactions, conducted by a personal property liquidator. From and after
3 December 31, 1994, personal property liquidation transactions shall be
4 taxable under this section provided that nothing in this subsection shall be
5 construed to authorize the taxation of casual activities or transactions
6 under this chapter. For the purposes of this paragraph:

7 (a) "Personal property liquidation transaction" means a sale of
8 personal property made by a personal property liquidator acting solely on
9 behalf of the owner of the personal property sold at the dwelling of the
10 owner or upon the death of any owner, on behalf of the surviving spouse, if
11 any, any devisee or heir or the personal representative of the estate of the
12 deceased, if one has been appointed.

13 (b) "Personal property liquidator" means a person who is retained to
14 conduct a sale in a personal property liquidation transaction.

15 41. Sales of food, drink and condiment for consumption within the
16 premises of any prison, jail or other institution under the jurisdiction of
17 the state department of corrections, the department of public safety, the
18 department of juvenile corrections or a county sheriff.

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

23 43. Livestock and poultry feed, salts, vitamins and other additives for
24 livestock or poultry consumption that are sold to persons who are engaged in
25 producing livestock, poultry, or livestock or poultry products or who are
26 engaged in feeding livestock or poultry commercially. For the purposes of
27 this paragraph, "poultry" includes ratites.

28 44. Sales of implants used as growth promotants and injectable
29 medicines, not already exempt under paragraph 8 of this subsection, for
30 livestock or poultry owned by or in possession of persons who are engaged in
31 producing livestock, poultry, or livestock or poultry products or who are
32 engaged in feeding livestock or poultry commercially. For the purposes of
33 this paragraph, "poultry" includes ratites.

34 45. Sales of motor vehicles at auction to nonresidents of this state
35 for use outside this state if the vehicles are shipped or delivered out of
36 this state, regardless of where title to the motor vehicles passes or its
37 free on board point.

38 46. Tangible personal property sold to a person engaged in business and
39 subject to tax under the transient lodging classification if the tangible
40 personal property is a personal hygiene item or articles used by human beings
41 for food, drink or condiment, except alcoholic beverages, which are furnished
42 without additional charge to and intended to be consumed by the transient
43 during the transient's occupancy.

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

4 48. Sales of materials that are purchased by or for publicly funded
5 libraries including school district libraries, charter school libraries,
6 community college libraries, state university libraries or federal, state,
7 county or municipal libraries for use by the public as follows:

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

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

10 49. Tangible personal property sold to a commercial airline and
11 consisting of food, beverages and condiments and accessories used for serving
12 the food and beverages, if those items are to be provided without additional
13 charge to passengers for consumption in flight. For the purposes of this
14 paragraph, "commercial airline" means a person holding a federal certificate
15 of public convenience and necessity or foreign air carrier permit for air
16 transportation to transport persons, property or United States mail in
17 intrastate, interstate or foreign commerce.

18 50. Sales of alternative fuel vehicles if the vehicle was manufactured
19 as a diesel fuel vehicle and converted to operate on alternative fuel and
20 equipment that is installed in a conventional diesel fuel motor vehicle to
21 convert the vehicle to operate on an alternative fuel, as defined in section
22 1-215.

23 51. Sales of any spirituous, vinous or malt liquor by a person that is
24 licensed in this state as a wholesaler by the department of liquor licenses
25 and control pursuant to title 4, chapter 2, article 1.

26 52. Sales of tangible personal property to be incorporated or installed
27 as part of environmental response or remediation activities under section
28 42-5075, subsection B, paragraph 6.

29 53. Sales of tangible personal property by a nonprofit organization
30 that is exempt from taxation under section 501(c)(6) of the internal revenue
31 code if the organization produces, organizes or promotes cultural or civic
32 related festivals or events and no part of the organization's net earnings
33 inures to the benefit of any private shareholder or individual.

34 54. Through August 31, 2014, sales of Arizona centennial medallions by
35 the historical advisory commission.

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

40 (a) "Application services" means software applications provided
41 remotely using hypertext transfer protocol or another network protocol.

42 (b) "Curriculum design or enhancement" means planning, implementing or
43 reporting on courses of study, lessons, assignments or other learning
44 activities.

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

5 1. Machinery, or equipment, used directly in manufacturing,
6 processing, fabricating, job printing, refining or metallurgical operations.
7 The terms "manufacturing", "processing", "fabricating", "job printing",
8 "refining" and "metallurgical" as used in this paragraph refer to and include
9 those operations commonly understood within their ordinary meaning.
10 "Metallurgical operations" includes leaching, milling, precipitating,
11 smelting and refining.

12 2. Mining machinery, or equipment, used directly in the process of
13 extracting ores or minerals from the earth for commercial purposes, including
14 equipment required to prepare the materials for extraction and handling,
15 loading or transporting such extracted material to the surface. "Mining"
16 includes underground, surface and open pit operations for extracting ores and
17 minerals.

18 3. Tangible personal property sold to persons engaged in business
19 classified under the telecommunications classification and consisting of
20 central office switching equipment, switchboards, private branch exchange
21 equipment, microwave radio equipment and carrier equipment including optical
22 fiber, coaxial cable and other transmission media which are components of
23 carrier systems.

24 4. Machinery, equipment or transmission lines used directly in
25 producing or transmitting electrical power, but not including distribution.
26 Transformers and control equipment used at transmission substation sites
27 constitute equipment used in producing or transmitting electrical power.

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

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

35 7. Aircraft, navigational and communication instruments and other
36 accessories and related equipment sold to:

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

43 (b) Any foreign government.

44 (c) Persons who are not residents of this state and who will not use
45 such property in this state other than in removing such property from this

1 state. This subdivision also applies to corporations that are not
2 incorporated in this state, regardless of maintaining a place of business in
3 this state, if the principal corporate office is located outside this state
4 and the property will not be used in this state other than in removing the
5 property from this state.

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

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

12 10. Machinery or equipment used directly to drill for oil or gas or
13 used directly in the process of extracting oil or gas from the earth for
14 commercial purposes.

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

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

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

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

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

35 14. Machinery or equipment used in research and development. For the
36 purposes of this paragraph, "research and development" means basic and
37 applied research in the sciences and engineering, and designing, developing
38 or testing prototypes, processes or new products, including research and
39 development of computer software that is embedded in or an integral part of
40 the prototype or new product or that is required for machinery or equipment
41 otherwise exempt under this section to function effectively. Research and
42 development do not include manufacturing quality control, routine consumer
43 product testing, market research, sales promotion, sales service, research in
44 social sciences or psychology, computer software research that is not

1 included in the definition of research and development, or other
2 nontechnological activities or technical services.

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

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

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

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

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

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

28 (i) Over two-thirds of the transmissions, measured in megabytes,
29 transmitted by the facility during the test period were transmitted to or on
30 behalf of one or more direct broadcast satellite television or data
31 transmission services that operate pursuant to 47 Code of Federal Regulations
32 part 25.

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

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

42 17. Clean rooms that are used for manufacturing, processing,
43 fabrication or research and development, as defined in paragraph 14 of this
44 subsection, of semiconductor products. For the purposes of this paragraph,
45 "clean room" means all property that comprises or creates an environment

1 where humidity, temperature, particulate matter and contamination are
2 precisely controlled within specified parameters, without regard to whether
3 the property is actually contained within that environment or whether any of
4 the property is affixed to or incorporated into real property. Clean room:

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

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

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

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

27 20. Machinery and equipment that are sold to a person engaged in the
28 commercial production of livestock, livestock products or agricultural,
29 horticultural, viticultural or floricultural crops or products in this state
30 and that are used directly and primarily to prevent, monitor, control or
31 reduce air, water or land pollution.

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

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

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

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

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

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

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

15 1. Expendable materials. For the purposes of this paragraph,
16 expendable materials do not include any of the categories of tangible
17 personal property specified in subsection B of this section regardless of the
18 cost or useful life of that property.

19 2. Janitorial equipment and hand tools.

20 3. Office equipment, furniture and supplies.

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

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

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

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

31 D. In addition to the deductions from the tax base prescribed by
32 subsection A of this section, there shall be deducted from the tax base the
33 gross proceeds of sales or gross income derived from sales of machinery,
34 equipment, materials and other tangible personal property used directly and
35 predominantly to construct a qualified environmental technology
36 manufacturing, producing or processing facility as described in section
37 41-1514.02. This subsection applies for ten full consecutive calendar or
38 fiscal years after the start of initial construction.

39 E. In computing the tax base, gross proceeds of sales or gross income
40 from retail sales of heavy trucks and trailers does not include any amount
41 attributable to federal excise taxes imposed by 26 United States Code section
42 4051.

43 F. In computing the tax base, gross proceeds of sales or gross income
44 from the sale of use fuel, as defined in section 28-5601, does not include

1 any amount attributable to federal excise taxes imposed by 26 United States
2 Code section 4091.

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

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

15 I. A person who engages in manufacturing, baling, crating, boxing,
16 barreling, canning, bottling, sacking, preserving, processing or otherwise
17 preparing for sale or commercial use any livestock, agricultural or
18 horticultural product or any other product, article, substance or commodity
19 and who sells the product of such business at retail in this state is deemed,
20 as to such sales, to be engaged in business classified under the retail
21 classification. This subsection does not apply to businesses classified
22 under the:

- 23 1. Transporting classification.
- 24 2. Utilities classification.
- 25 3. Telecommunications classification.
- 26 4. Pipeline classification.
- 27 5. Private car line classification.
- 28 6. Publication classification.
- 29 7. Job printing classification.
- 30 8. Prime contracting classification.
- 31 9. Owner builder sales classification.
- 32 10. Restaurant classification.

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

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

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

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

1 modifier, assembler or repairer, to which title passes to the government
2 under the terms of the contract or subcontract.

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

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

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

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

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

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

22 N. There shall be deducted from the tax base the amount received from
23 sales of solar energy devices. The retailer shall register with the
24 department as a solar energy retailer. By registering, the retailer
25 acknowledges that it will make its books and records relating to sales of
26 solar energy devices available to the department for examination.

27 O. In computing the tax base in the case of the sale or transfer of
28 wireless telecommunications equipment as an inducement to a customer to enter
29 into or continue a contract for telecommunications services that are taxable
30 under section 42-5064, gross proceeds of sales or gross income does not
31 include any sales commissions or other compensation received by the retailer
32 as a result of the customer entering into or continuing a contract for the
33 telecommunications services.

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

39 Q. Retail sales of prepaid calling cards or prepaid authorization
40 numbers for telecommunications services, including sales of reauthorization
41 of a prepaid card or authorization number, are subject to tax under this
42 section.

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

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

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

7 S. If a seller is entitled to a deduction pursuant to subsection B,
8 paragraph 16, subdivision (b) of this section, the department may require the
9 purchaser to establish that the requirements of subsection B, paragraph 16,
10 subdivision (b) of this section have been satisfied. If the purchaser cannot
11 establish that the requirements of subsection B, paragraph 16, subdivision
12 (b) of this section have been satisfied, the purchaser is liable in an amount
13 equal to any tax, penalty and interest which the seller would have been
14 required to pay under article 1 of this chapter if the seller had not made a
15 deduction pursuant to subsection B, paragraph 16, subdivision (b) of this
16 section. Payment of the amount under this subsection exempts the purchaser
17 from liability for any tax imposed under article 4 of this chapter and
18 related to the tangible personal property purchased. The amount shall be
19 treated as transaction privilege tax to the purchaser and as tax revenues
20 collected from the seller to designate the distribution base pursuant to
21 section 42-5029.

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

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

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

30 U. In computing the tax base for the sale of a motor vehicle to a
31 nonresident of this state, if the purchaser's state of residence allows a
32 corresponding use tax exemption to the tax imposed by article 1 of this
33 chapter and the rate of the tax in the purchaser's state of residence is
34 lower than the rate prescribed in article 1 of this chapter or if the
35 purchaser's state of residence does not impose an excise tax, and the
36 nonresident has secured a special ninety day nonresident registration permit
37 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall
38 be deducted from the tax base a portion of the gross proceeds or gross income
39 from the sale so that the amount of transaction privilege tax that is paid in
40 this state is equal to the excise tax that is imposed by the purchaser's
41 state of residence on the nonexempt sale or use of the motor vehicle.

42 V. For the purposes of this section:

43 1. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

1 Sec. 13. Section 42-5159, Arizona Revised Statutes, is amended to
2 read:

3 42-5159. Exemptions

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

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

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

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

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

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

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

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

42 8. Livestock, poultry, supplies, feed, salts, vitamins and other
43 additives for use or consumption in the businesses of farming, ranching and
44 feeding livestock or poultry, not including fertilizers, herbicides and

1 insecticides. For the purposes of this paragraph, "poultry" includes
2 ratites.

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

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

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

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

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

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

19 13. Tangible personal property purchased by:

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

23 (b) A hospital operated by this state or a political subdivision of
24 this state.

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

30 (d) A qualifying health care organization, as defined in section
31 42-5001, if the tangible personal property is used by the organization solely
32 to provide health and medical related educational and charitable services.

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

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

43 (g) A person that is subject to tax under article 1 of this chapter by
44 reason of being engaged in business classified under the prime contracting
45 classification under section 42-5075, or a subcontractor working under the

1 control of a prime contractor, if the tangible personal property is any of
2 the following:

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

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

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

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

15 (i) A qualifying community health center as defined in section
16 42-5001.

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

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

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

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

38 15. Tangible personal property sold by:

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

42 (b) A nonprofit organization that is exempt from taxation under
43 section 501(c)(3) or 501(c)(6) of the internal revenue code if the
44 organization is associated with a major league baseball team or a national

1 touring professional golfing association and no part of the organization's
2 net earnings inures to the benefit of any private shareholder or individual.

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

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

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

15 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

37 26. Food, drink or condiment and accessory tangible personal property
38 that are acquired for use by or provided to a school district or charter
39 school if they are to be either served or prepared and served to persons for
40 consumption on the premises of a public school in the school district or on
41 the premises of the charter school during school hours.

42 27. Lottery tickets or shares purchased pursuant to title 5, chapter ~~5-~~
43 5.1, article 1.

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

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

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

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

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

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

21 (b) Public educational institutions.

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

25 33. Natural gas or liquefied petroleum gas used to propel a motor
26 vehicle.

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

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

1 36. Food, drink and condiment purchased for consumption within the
2 premises of any prison, jail or other institution under the jurisdiction of
3 the state department of corrections, the department of public safety, the
4 department of juvenile corrections or a county sheriff.

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

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

12 39. Overhead materials or other tangible personal property that is used
13 in performing a contract between the United States government and a
14 manufacturer, modifier, assembler or repairer, including property used in
15 performing a subcontract with a government contractor who is a manufacturer,
16 modifier, assembler or repairer, to which title passes to the government
17 under the terms of the contract or subcontract. For the purposes of this
18 paragraph:

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

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

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

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

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

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

12 44. Alternative fuel vehicles if the vehicle was manufactured as a
13 diesel fuel vehicle and converted to operate on alternative fuel and
14 equipment that is installed in a conventional diesel fuel motor vehicle to
15 convert the vehicle to operate on an alternative fuel, as defined in section
16 1-215.

17 45. Gas diverted from a pipeline, by a person engaged in the business
18 of:

19 (a) Operating a natural or artificial gas pipeline, and used or
20 consumed for the sole purpose of fueling compressor equipment that
21 pressurizes the pipeline.

22 (b) Converting natural gas into liquefied natural gas, and used or
23 consumed for the sole purpose of fueling compressor equipment used in the
24 conversion process.

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

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

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

35 49. Prepared food, drink or condiment donated by a restaurant as
36 classified in section 42-5074, subsection A to a nonprofit charitable
37 organization that has qualified under section 501(c)(3) of the internal
38 revenue code and that regularly serves meals to the needy and indigent on a
39 continuing basis at no cost.

40 50. Application services that are designed to assess or test student
41 learning or to promote curriculum design or enhancement purchased by or for
42 any school district, charter school, community college or state university.
43 For the purposes of this paragraph:

44 (a) "Application services" means software applications provided
45 remotely using hypertext transfer protocol or another network protocol.

1 (b) "Curriculum design or enhancement" means planning, implementing or
2 reporting on courses of study, lessons, assignments or other learning
3 activities.

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

7 1. Machinery, or equipment, used directly in manufacturing,
8 processing, fabricating, job printing, refining or metallurgical operations.
9 The terms "manufacturing", "processing", "fabricating", "job printing",
10 "refining" and "metallurgical" as used in this paragraph refer to and include
11 those operations commonly understood within their ordinary meaning.
12 "Metallurgical operations" includes leaching, milling, precipitating,
13 smelting and refining.

14 2. Machinery, or equipment, used directly in the process of extracting
15 ores or minerals from the earth for commercial purposes, including equipment
16 required to prepare the materials for extraction and handling, loading or
17 transporting such extracted material to the surface. "Mining" includes
18 underground, surface and open pit operations for extracting ores and
19 minerals.

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

26 4. Machinery, equipment or transmission lines used directly in
27 producing or transmitting electrical power, but not including distribution.
28 Transformers and control equipment used at transmission substation sites
29 constitute equipment used in producing or transmitting electrical power.

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

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

37 7. Aircraft, navigational and communication instruments and other
38 accessories and related equipment sold to:

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

1 (b) Any foreign government, or sold to persons who are not residents
2 of this state and who will not use such property in this state other than in
3 removing such property from this state.

4 8. Machinery, tools, equipment and related supplies used or consumed
5 directly in repairing, remodeling or maintaining aircraft, aircraft engines
6 or aircraft component parts by or on behalf of a certificated or licensed
7 carrier of persons or property.

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

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

13 11. Buses or other urban mass transit vehicles which are used directly
14 to transport persons or property for hire or pursuant to a governmentally
15 adopted and controlled urban mass transportation program and which are sold
16 to bus companies holding a federal certificate of convenience and necessity
17 or operated by any city, town or other governmental entity or by any person
18 contracting with such governmental entity as part of a governmentally adopted
19 and controlled program to provide urban mass transportation.

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

21 13. New machinery and equipment consisting of tractors, tractor-drawn
22 implements, self-powered implements, machinery and equipment necessary for
23 extracting milk, and machinery and equipment necessary for cooling milk and
24 livestock, and drip irrigation lines not already exempt under paragraph 6 of
25 this subsection and that are used for commercial production of agricultural,
26 horticultural, viticultural and floricultural crops and products in this
27 state. For the purposes of this paragraph:

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

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

33 14. Machinery or equipment used in research and development. For the
34 purposes of this paragraph, "research and development" means basic and
35 applied research in the sciences and engineering, and designing, developing
36 or testing prototypes, processes or new products, including research and
37 development of computer software that is embedded in or an integral part of
38 the prototype or new product or that is required for machinery or equipment
39 otherwise exempt under this section to function effectively. Research and
40 development do not include manufacturing quality control, routine consumer
41 product testing, market research, sales promotion, sales service, research in
42 social sciences or psychology, computer software research that is not
43 included in the definition of research and development, or other
44 nontechnological activities or technical services.

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

8 (a) "Motion picture, multimedia or interactive video production"
9 includes products for theatrical and television release, educational
10 presentations, electronic retailing, documentaries, music videos, industrial
11 films, CD-ROM, video game production, commercial advertising and television
12 episode production and other genres that are introduced through developing
13 technology.

14 (b) "Soundstage complex" means a facility of multiple stages including
15 production offices, construction shops and related areas, prop and costume
16 shops, storage areas, parking for production vehicles and areas that are
17 leased to businesses that complement the production needs and orientation of
18 the overall facility.

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

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

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

26 (i) Over two-thirds of the transmissions, measured in megabytes,
27 transmitted by the facility during the test period were transmitted to or on
28 behalf of one or more direct broadcast satellite television or data
29 transmission services that operate pursuant to 47 Code of Federal Regulations
30 part 25.

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

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

40 17. Clean rooms that are used for manufacturing, processing,
41 fabrication or research and development, as defined in paragraph 14 of this
42 subsection, of semiconductor products. For the purposes of this paragraph,
43 "clean room" means all property that comprises or creates an environment
44 where humidity, temperature, particulate matter and contamination are
45 precisely controlled within specified parameters, without regard to whether

1 the property is actually contained within that environment or whether any of
2 the property is affixed to or incorporated into real property. Clean room:

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

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

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

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

25 20. Machinery and equipment that are used in the commercial production
26 of livestock, livestock products or agricultural, horticultural, viticultural
27 or floricultural crops or products in this state and that are used directly
28 and primarily to prevent, monitor, control or reduce air, water or land
29 pollution.

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

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

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

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

44 22. Qualifying equipment that is purchased from and after June 30, 2004
45 through June 30, 2014 by a qualified business under section 41-1516 for

1 harvesting or the initial processing of qualifying forest products removed
2 from qualifying projects as defined in section 41-1516. To qualify for this
3 exemption, the qualified business must obtain and present its certification
4 from the Arizona commerce authority at the time of purchase.

5 23. Machinery, equipment and other tangible personal property used
6 directly in motion picture production by a motion picture production company.
7 To qualify for this exemption, at the time of purchase, the motion picture
8 production company must present to the retailer its certificate that is
9 issued pursuant to section 42-5009, subsection H and that establishes its
10 qualification for the exemption.

11 C. The exemptions provided by subsection B of this section do not
12 include:

13 1. Expendable materials. For the purposes of this paragraph,
14 expendable materials do not include any of the categories of tangible
15 personal property specified in subsection B of this section regardless of the
16 cost or useful life of that property.

17 2. Janitorial equipment and hand tools.

18 3. Office equipment, furniture and supplies.

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

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

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

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

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

31 1. Revenues received from sales of ancillary services, electric
32 distribution services, electric generation services, electric transmission
33 services and other services related to providing electricity to a retail
34 electric customer who is located outside this state for use outside this
35 state if the electricity is delivered to a point of sale outside this state.

36 2. Revenues received from providing electricity, including ancillary
37 services, electric distribution services, electric generation services,
38 electric transmission services and other services related to providing
39 electricity with respect to which the transaction privilege tax imposed under
40 section 42-5063 has been paid.

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

42 1. The storage, use or consumption in Arizona of machinery, equipment,
43 materials or other tangible personal property if used directly and
44 predominantly to construct a qualified environmental technology
45 manufacturing, producing or processing facility, as described in section

1 41-1514.02. This paragraph applies for ten full consecutive calendar or
2 fiscal years after the start of initial construction.

3 2. The purchase of electricity by a qualified environmental technology
4 manufacturer, producer or processor as defined in section 41-1514.02 that is
5 used directly in environmental technology manufacturing, producing or
6 processing. This paragraph shall apply for twenty full consecutive calendar
7 or fiscal years from the date the first paper manufacturing machine is placed
8 in service. In the case of an environmental technology manufacturer,
9 producer or processor who does not manufacture paper, the time period shall
10 begin with the date the first manufacturing, processing or production
11 equipment is placed in service.

12 3. The purchase of solar energy devices from a retailer that is
13 registered with the department as a solar energy retailer or a solar energy
14 contractor.

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

17 1. Fees charged by a municipally owned utility to persons constructing
18 residential, commercial or industrial developments or connecting residential,
19 commercial or industrial developments to a municipal utility system or
20 systems if the fees are segregated and used only for capital expansion,
21 system enlargement or debt service of the utility system or systems.

22 2. Reimbursement or contribution compensation to any person or persons
23 owning a utility system for property and equipment installed to provide
24 utility access to, on or across the land of an actual utility consumer if the
25 property and equipment become the property of the utility. This deduction
26 shall not exceed the value of such property and equipment.

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

28 1. "Aircraft" includes:

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

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

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

38 H. For the purposes of subsection D of this section, "ancillary
39 services", "electric distribution service", "electric generation service",
40 "electric transmission service" and "other services" have the same meanings
41 prescribed in section 42-5063.

42 Sec. 14. Section 43-405, Arizona Revised Statutes, is amended to read:

43 43-405. Extension of withholding to gambling winnings

44 A. For the purposes of this title, payments of prize winnings which
45 are subject to federal withholding pursuant to section 1441 or section

1 3402(q) of the internal revenue code by any of the following shall be treated
2 as if they were payments of wages by an employer to employees for a payroll
3 period:

4 1. The Arizona state lottery commission under title 5, chapter ~~5~~ 5.1.
5 2. A permittee conducting horse or dog racing under title 5,
6 chapter 1.

7 B. The lottery commission and permittees shall deduct and withhold
8 from each payment of prize winnings an amount equal to twenty per cent of the
9 amount withheld pursuant to section 1441 or section 3402(q) of the internal
10 revenue code and pay that amount to the department pursuant to this article.

11 Sec. 15. Section 43-1022, Arizona Revised Statutes, is amended to
12 read:

13 43-1022. Subtractions from Arizona gross income

14 In computing Arizona adjusted gross income, the following amounts shall
15 be subtracted from Arizona gross income:

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

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

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

24 (b) The Arizona state retirement system, the corrections officer
25 retirement plan, the public safety personnel retirement system, the elected
26 officials' retirement plan, an optional retirement program established by the
27 Arizona board of regents under section 15-1628, an optional retirement
28 program established by a community college district board under section
29 15-1451 or a retirement plan established for employees of a county, city or
30 town in this state.

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

34 4. The amount of any distributions from an individual retirement
35 account as provided for in section 408 of the internal revenue code or from a
36 qualified retirement plan of a self-employed individual as provided for in
37 section 401 of the internal revenue code to the extent that total adjustments
38 made pursuant to this paragraph in all tax years do not exceed the total of
39 all contributions made by the taxpayer to such plans prior to December 31,
40 1975, which were included in computing Arizona taxable income.

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

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

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

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

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

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

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

24 12. The amount allowed by section 43-1024 for amortization, by a
25 qualified defense contractor certified by the Arizona commerce authority
26 under section 41-1508, of a capital investment for private commercial
27 activities.

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

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

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

39 16. The amount of prizes or winnings less than five thousand dollars in
40 a single taxable year from any of the state lotteries established and
41 operated pursuant to title 5, chapter ~~5~~ 5.1, article 1, except that all such
42 winnings before March 22, 1983, including periodic distributions from such
43 winnings made after March 22, 1983, may be subtracted.

44 17. The amount of exploration expenses that is determined pursuant to
45 section 617 of the internal revenue code, that has been deferred in a taxable

1 year ending before January 1, 1990 and for which a subtraction has not
2 previously been made. The subtraction shall be made on a ratable basis as
3 the units of produced ores or minerals discovered or explored as a result of
4 this exploration are sold.

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

8 19. To the extent not already excluded from Arizona gross income under
9 the internal revenue code, compensation received for active service as a
10 member of the reserves, the national guard or the armed forces of the United
11 States, including compensation for service in a combat zone as determined
12 under section 112 of the internal revenue code.

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

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

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

26 (a) An eligible individual may subtract:

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

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

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

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

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

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

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

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

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

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

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

24 31. For taxable years beginning from and after December 31, 2007
25 through December 31, 2012, the amount contributed during the taxable year to
26 college savings plans established pursuant to section 529 of the internal
27 revenue code to the extent that the contributions were not deducted in
28 computing federal adjusted gross income. The amount subtracted shall not
29 exceed:

30 (a) Seven hundred fifty dollars for a single individual or a head of
31 household.

32 (b) One thousand five hundred dollars for a married couple filing a
33 joint return. In the case of a husband and wife who file separate returns,
34 the subtraction may be taken by either taxpayer or may be divided between
35 them, but the total subtractions allowed both husband and wife shall not
36 exceed one thousand five hundred dollars.

37 32. To the extent not already excluded from Arizona gross income under
38 the internal revenue code, the amount authorized by section 43-1032 for
39 displaced pupils choice grants.

40 33. The amount of any original issue discount that was deferred and not
41 allowed to be deducted in computing federal adjusted gross income or federal
42 taxable income in the current taxable year pursuant to section 108(i) of the
43 internal revenue code as added by section 1231 of the American recovery and
44 reinvestment act of 2009 (P.L. 111-5).

1 D. The secretary of state shall file and preserve all information
2 required to be filed with the secretary of state pursuant to this section for
3 five years from the date of filing, after which the information may be
4 destroyed. This information is public information and is open to public
5 inspection.

6 E. If a charitable organization is delinquent in filing its annual
7 registration statement, the secretary may assess a late registration penalty
8 of twenty-five dollars when the charitable organization files its
9 registration statement.

10 F. Instead of filing any financial disclosure information prescribed
11 by the secretary of state pursuant to this section, a tax exempt organization
12 pursuant to section 501(c)(3) of the internal revenue code may either:

13 1. File with the secretary of state a copy of the organization's
14 annual information return for the preceding fiscal year as defined in the
15 internal revenue code and applicable regulations.

16 2. Provide the secretary of state with the address on the internet
17 where the organization's annual information return is available.

18 G. Any charitable organization that is a bona fide and duly
19 constituted religious institution and any other entity that is an integral
20 part of a religious institution shall file the registration statement
21 prescribed in this section but is not required to file any financial
22 disclosure information prescribed by the secretary of state pursuant to this
23 section if all of the following apply:

24 1. The religious institution or entity is a tax exempt institution or
25 entity pursuant to the internal revenue code.

26 2. No part of the religious institution's or entity's net income
27 inures to the direct benefit of any individual.

28 3. The religious institution or entity only solicits monies from the
29 institution's or entity's membership, congregation or previous donors and the
30 institution's or entity's conduct and fees charged for services are primarily
31 supported and paid through government grants or contracts.

32 H. The secretary of state may deny an application for registration of
33 the name of a charitable organization if:

34 1. The name might mislead the public or is not readily distinguishable
35 from one or more names that are currently registered under this article.

36 2. The name is the same as or deceptively similar to:

37 (a) An existing corporate name or a corporate name reserved pursuant
38 to title 10, chapter 4, 18 or 27.

39 (b) The name of a limited partnership organized under the laws of this
40 state or licensed or registered as a foreign limited liability company,
41 authorized to transact business in the state or a name that is registered
42 pursuant to chapter 10, article 3 or 3.1 of this title.

43 I. The secretary of state may deny an application for registration or
44 may revoke the registration of a charitable organization for any of the
45 following reasons:

