

REFERENCE TITLE: comprehensive TPT; income tax repeal

State of Arizona
House of Representatives
Fifty-first Legislature
First Regular Session
2013

HB 2590

Introduced by
Representative Kwasman

AN ACT

AMENDING SECTIONS 42-5001, 42-5010, 42-5029 AND 42-5061, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5077; PROVIDING FOR THE DELAYED REPEAL OF TITLE 42, CHAPTER 5, ARTICLE 3, ARIZONA REVISED STATUTES; PROVIDING FOR THE DELAYED REPEAL OF SECTION 42-5159, ARIZONA REVISED STATUTES; AMENDING SECTION 43-206, ARIZONA REVISED STATUTES; PROVIDING FOR THE DELAYED REPEAL OF TITLE 43, CHAPTERS 10 AND 11, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5001, Arizona Revised Statutes, is amended to
3 read:

4 42-5001. Definitions

5 In this article and article 2 of this chapter, unless the context
6 otherwise requires:

7 1. "Business" includes all activities or acts, personal or corporate,
8 engaged in or caused to be engaged in with the object of gain, benefit or
9 advantage, either directly or indirectly, but does not include either:

10 (a) Casual activities or sales.

11 (b) The transfer of electricity from a solar photovoltaic generation
12 system to an electric utility distribution system.

13 ~~2. "Distribution base" means the portion of the revenues derived from~~
14 ~~the tax levied by this article and articles 5 and 8 of this chapter~~
15 ~~designated for distribution to counties, municipalities and other purposes~~
16 ~~according to section 42-5029, subsection D.~~

17 ~~3.~~ 2. "Engaging", when used with reference to engaging or continuing
18 in business, includes the exercise of corporate or franchise powers.

19 ~~4.~~ 3. "Gross income" means the gross receipts of a taxpayer derived
20 from trade, business, commerce or sales and the value proceeding or accruing
21 from the sale of tangible personal property or service, or both, and without
22 any deduction on account of losses.

23 ~~5.~~ 4. "Gross proceeds of sales" means the value proceeding or
24 accruing from the sale of tangible personal property without any deduction on
25 account of the cost of property sold, expense of any kind or losses, but cash
26 discounts allowed and taken on sales are not included as gross income.

27 ~~6.~~ 5. "Gross income" and "gross proceeds of sales" do not include
28 goods, wares or merchandise, or value thereof, returned by customers if the
29 sale price is refunded either in cash or by credit, nor the value of
30 merchandise traded in on the purchase of new merchandise when the trade-in
31 allowance is deducted from the sales price of the new merchandise before
32 completion of the sale.

33 ~~7.~~ 6. "Gross receipts" means the total amount of the sale, lease or
34 rental price, as the case may be, of the retail sales of retailers, including
35 any services that are a part of the sales, valued in money, whether received
36 in money or otherwise, including all receipts, cash, credits and property of
37 every kind or nature, and any amount for which credit is allowed by the
38 seller to the purchaser without any deduction from the amount on account of
39 the cost of the property sold, materials used, labor or service performed,
40 interest paid, losses or any other expense. Gross receipts do not include
41 cash discounts allowed and taken nor the sale price of property returned by
42 customers if the full sale price is refunded either in cash or by credit.

43 ~~8.~~ 7. "Person" or "company" includes an individual, firm,
44 partnership, joint venture, association, corporation, estate or trust, this
45 state, any county, city, town, district, other than a school district, or

1 other political subdivision and any other group or combination acting as a
2 unit, and the plural as well as the singular number.

3 ~~9-~~ 8. "Qualifying community health center":

4 (a) Means an entity that is recognized as nonprofit under section
5 501(c)(3) of the United States internal revenue code, that is a
6 community-based, primary care clinic that has a community-based board of
7 directors and that is either:

8 (i) The sole provider of primary care in the community.

9 (ii) A nonhospital affiliated clinic that is located in a federally
10 designated medically underserved area in this state.

11 (b) Includes clinics that are being constructed as qualifying
12 community health centers.

13 ~~10-~~ 9. "Qualifying health care organization" means an entity that is

14 recognized as nonprofit under section 501(c) of the United States internal
15 revenue code and that uses, saves or invests at least eighty per cent of all
16 monies that it receives from all sources each year only for health and
17 medical related educational and charitable services, as documented by annual
18 financial audits prepared by an independent certified public accountant,
19 performed according to generally accepted auditing standards and filed
20 annually with the department. Monies that are used, saved or invested to
21 lease, purchase or construct a facility for health and medical related
22 education and charitable services are included in the eighty per cent
23 requirement.

24 ~~11-~~ 10. "Qualifying hospital" means any of the following:

25 (a) A licensed hospital which is organized and operated exclusively
26 for charitable purposes, no part of the net earnings of which inures to the
27 benefit of any private shareholder or individual.

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

33 (c) A hospital, nursing care institution or residential care
34 institution which is operated by the federal government, this state or a
35 political subdivision of this state.

36 (d) A facility that is under construction and that on completion will
37 be a facility under subdivision (a), (b) or (c) of this paragraph.

38 ~~12-~~ 11. "Retailer" includes every person engaged in the business

39 classified under the retail classification pursuant to section 42-5061 and,
40 when in the opinion of the department it is necessary for the efficient
41 administration of this article, includes dealers, distributors, supervisors,
42 employers and salesmen, representatives, peddlers or canvassers as the agents
43 of the dealers, distributors, supervisors or employers under whom they
44 operate or from whom they obtain the tangible personal property sold by them,

1 whether in making sales on their own behalf or on behalf of the dealers,
2 distributors, supervisors or employers.

3 ~~13-~~ 12. "Sale" means any transfer of title or possession, or both,
4 exchange, barter, lease or rental, conditional or otherwise, in any manner or
5 by any means whatever, including consignment transactions and auctions, of
6 tangible personal property or other activities taxable under this chapter,
7 for a consideration, and includes:

8 (a) Any transaction by which the possession of property is transferred
9 but the seller retains the title as security for the payment of the price.

10 (b) Fabricating tangible personal property for consumers who furnish
11 either directly or indirectly the materials used in the fabrication work.

12 (c) Furnishing, preparing or serving for a consideration any tangible
13 personal property consumed on the premises of the person furnishing,
14 preparing or serving the tangible personal property.

15 ~~14-~~ 13. "Solar daylighting" means a device that is specifically
16 designed to capture and redirect the visible portion of the solar beam, while
17 controlling the infrared portion, for use in illuminating interior building
18 spaces in lieu of artificial lighting.

19 ~~15-~~ 14. "Solar energy device" means a system or series of mechanisms
20 designed primarily to provide heating, to provide cooling, to produce
21 electrical power, to produce mechanical power, to provide solar daylighting
22 or to provide any combination of the foregoing by means of collecting and
23 transferring solar generated energy into such uses either by active or
24 passive means, including wind generator systems that produce electricity.
25 Solar energy systems may also have the capability of storing solar energy for
26 future use. Passive systems shall clearly be designed as a solar energy
27 device, such as a trombe wall, and not merely as a part of a normal
28 structure, such as a window.

29 ~~16-~~ 15. "Tangible personal property" means personal property which may
30 be seen, weighed, measured, felt or touched or is in any other manner
31 perceptible to the senses.

32 ~~17-~~ 16. "Tax year" or "taxable year" means either the calendar year or
33 the taxpayer's fiscal year, if permission is obtained from the department to
34 use a fiscal year as the tax period instead of the calendar year.

35 ~~18-~~ 17. "Taxpayer" means any person who is liable for any tax which is
36 imposed by this article.

37 ~~19-~~ 18. "Wholesaler" or "jobber" means any person who sells tangible
38 personal property for resale and not for consumption by the purchaser.

39 Sec. 2. Section 42-5010, Arizona Revised Statutes, is amended to read:

40 42-5010. Rates; distribution base

41 A. The tax imposed by this article is levied and shall be collected at
42 the following rates:

43 1. Five **AND SEVEN-TENTHS** per cent of the tax base as computed for the
44 business of every person engaging or continuing in this state in ~~the~~

1 following A business classifications CLASSIFICATION described in article 2 of
2 this chapter EXCEPT AS OTHERWISE PROVIDED IN THIS SUBSECTION. :-

- 3 ~~(a) Transporting classification.~~
- 4 ~~(b) Utilities classification.~~
- 5 ~~(c) Telecommunications classification.~~
- 6 ~~(d) Pipeline classification.~~
- 7 ~~(e) Private car line classification.~~
- 8 ~~(f) Publication classification.~~
- 9 ~~(g) Job printing classification.~~
- 10 ~~(h) Prime contracting classification.~~
- 11 ~~(i) Owner builder sales classification.~~
- 12 ~~(j) Amusement classification.~~
- 13 ~~(k) Restaurant classification.~~
- 14 ~~(l) Personal property rental classification.~~
- 15 ~~(m) Retail classification.~~

16 2. ~~Five and one-half~~ SIX AND THREE-TENTHS per cent of the tax base as
17 computed for the business of every person engaging or continuing in this
18 state in the transient lodging classification described in section 42-5070.

19 3. ~~Three and one-eighth~~ SIX per cent of the tax base as computed for
20 the business of every person engaging or continuing in this state in the
21 mining classification described in section 42-5072.

22 4. ~~Zero~~ SIX per cent of the tax base as computed for the business of
23 every person engaging or continuing in this state in the commercial lease
24 classification described in section 42-5069.

25 ~~B. Except as provided by subsection J of this section, twenty per cent~~
26 ~~of the tax revenues collected at the rate prescribed by subsection A,~~
27 ~~paragraph 1 of this section from persons on account of engaging in business~~
28 ~~under the business classifications listed in subsection A, paragraph 1,~~
29 ~~subdivisions (a) through (i) of this section is designated as distribution~~
30 ~~base for purposes of section 42-5029.~~

31 ~~C. Forty per cent of the tax revenues collected at the rate prescribed~~
32 ~~by subsection A, paragraph 1 of this section from persons on account of~~
33 ~~engaging in business under the business classifications listed in subsection~~
34 ~~A, paragraph 1, subdivisions (j) through (m) of this section is designated as~~
35 ~~distribution base for purposes of section 42-5029.~~

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

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

44 ~~F. Fifty per cent of the tax revenues collected from persons on~~
45 ~~account of engaging in business under the business classification listed in~~

1 ~~subsection A, paragraph 2 of this section is designated as distribution base~~
2 ~~for purposes of section 42-5029.~~

3 ~~G.~~ B. In addition to the rates prescribed by subsection A of this
4 section, if approved by the qualified electors voting at a statewide general
5 election, an additional rate increment is imposed and shall be collected
6 through June 30, 2021. The taxpayer shall pay taxes pursuant to this
7 subsection at the same time and in the same manner as under subsection A of
8 this section. The department shall separately account for the revenues
9 collected with respect to the rates imposed pursuant to this subsection and
10 the state treasurer shall distribute all of those revenues in the manner
11 prescribed by section 42-5029, subsection ~~E~~ F. The rates imposed pursuant
12 to this subsection shall not be considered local revenues for purposes of
13 article IX, section 21, Constitution of Arizona. The additional tax rate
14 increment is levied at the rate of six-tenths of one per cent of the tax base
15 of every person engaging or continuing in this state in a business
16 classification ~~listed in subsection A, paragraph 1 of this section~~ TAXED
17 UNDER THIS SECTION ON JANUARY 1, 2012.

18 ~~H.~~ C. Any increase in the rate of tax that is imposed by this chapter
19 and that is enacted by the legislature or by a vote of the people does not
20 apply with respect to contracts entered into by prime contractors or pursuant
21 to written bids made by prime contractors on or before the effective date of
22 the legislation or the date of the election enacting the increase. To
23 qualify for the exemption under this subsection, the prime contractor must
24 maintain sufficient documentation, in a manner and form prescribed by the
25 department, to verify the date of the contract or written bid.

26 ~~I.~~ D. For taxpayers taxable under this chapter other than prime
27 contractors taxable pursuant to section 42-5075:

28 1. Any increase in the rate of tax that is levied by this article or
29 article 2 of this chapter enacted by the legislature or by a vote of the
30 people does not apply for a period of one hundred twenty days from the date
31 of the tax rate increase to the gross proceeds of sales or gross income from
32 the business of the taxpayer with respect to written contracts entered into
33 before the effective date of the tax rate increase unless the taxpayer has
34 entered into a contract that contains a provision that entitles the taxpayer
35 to recover from the purchaser the amount of the additional tax levied.

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

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

41 ~~J. Zero per cent of the tax revenues that are collected at the rate~~
42 ~~prescribed by subsection A, paragraph 1 of this section from persons on~~
43 ~~account of engaging in business under the business classification listed in~~
44 ~~subsection A, paragraph 1, subdivision (h) of this section, and that are~~
45 ~~subject to any distribution required by section 42-5032.02, is designated as~~

1 ~~distribution base for the purposes of section 42-5029 until the total amount~~
2 ~~subject to distribution pursuant to section 42-5032.02 has reached the~~
3 ~~maximum amount prescribed by section 42-5032.02, subsection C. Thereafter,~~
4 ~~twenty per cent of the remaining tax revenues is designated as distribution~~
5 ~~base for the purposes of section 42-5029 as provided by subsection B of this~~
6 ~~section.~~

7 Sec. 3. Section 42-5029, Arizona Revised Statutes, is amended to read:
8 42-5029. Remission and distribution of monies; definition

9 A. The department shall deposit, pursuant to sections 35-146 and
10 35-147, all revenues collected under this article and articles 4, 5 and 8 of
11 this chapter pursuant to section 42-1116, separately accounting for:

12 1. Payments of estimated tax under section 42-5014, subsection D.

13 2. Revenues collected pursuant to section 42-5070.

14 3. Revenues collected under this article and article 5 of this chapter
15 from and after June 30, 2000 from sources located on Indian reservations in
16 this state.

17 4. Revenues collected pursuant to section 42-5010, subsection ~~G~~ B and
18 section 42-5155, subsection D.

19 B. The department shall credit payments of estimated tax to an
20 estimated tax clearing account and each month shall transfer all monies in
21 the estimated tax clearing account to a fund designated as the transaction
22 privilege and severance tax clearing account. The department shall credit
23 all other payments to the transaction privilege and severance tax clearing
24 account, ~~separately accounting for the monies designated as distribution base~~
25 ~~under sections 42-5010, 42-5164, 42-5205 and 42-5353.~~ Each month the
26 department shall report to the state treasurer the amount of monies collected
27 pursuant to this article and articles 4, 5 and 8 of this chapter.

28 C. On notification by the department, the state treasurer shall
29 distribute the monies deposited in the transaction privilege and severance
30 tax clearing account in the manner prescribed by this section and by sections
31 42-5164, 42-5205 and 42-5353, after deducting warrants drawn against the
32 account pursuant to sections 42-1118 and 42-1254.

33 D. Of the monies ~~designated as distribution base~~ COLLECTED PURSUANT TO
34 THIS CHAPTER the department shall PAY NINE HUNDRED SEVENTY-EIGHT MILLION
35 DOLLARS BEGINNING IN FISCAL YEAR 2017-2018 TO INCORPORATED CITIES AND TOWNS
36 AND COUNTIES IN EQUAL MONTHLY INSTALLMENTS. EACH FISCAL YEAR THEREAFTER,
37 THIS AMOUNT SHALL BE INCREASED BY _____ PER CENT. THE MONIES UNDER THIS
38 SUBSECTION SHALL BE PAID AS FOLLOWS:

39 1. Pay twenty-five per cent to the various incorporated municipalities
40 in this state in proportion to their population to be used by the
41 municipalities for any municipal purpose.

42 2. Pay 38.08 per cent to the counties in this state by averaging the
43 following proportions:

44 (a) The proportion that the population of each county bears to the
45 total state population.

1 (b) The proportion that the ~~distribution base~~ monies collected during
2 the calendar month in each county under this article, section 42-5164,
3 subsection B, section 42-5205, subsection B and section 42-5353 bear to the
4 total ~~distribution base~~ monies collected under this article, section 42-5164,
5 subsection B, section 42-5205, subsection B and section 42-5353 throughout
6 the state for the calendar month.

7 3. Pay an additional 2.43 per cent to the counties in this state as
8 follows:

9 (a) Average the following proportions:

10 (i) The proportion that the assessed valuation used to determine
11 secondary property taxes of each county, after deducting that part of the
12 assessed valuation that is exempt from taxation at the beginning of the month
13 for which the amount is to be paid, bears to the total assessed valuations
14 used to determine secondary property taxes of all the counties after
15 deducting that portion of the assessed valuations that is exempt from
16 taxation at the beginning of the month for which the amount is to be paid.
17 Property of a city or town that is not within or contiguous to the municipal
18 corporate boundaries and from which water is or may be withdrawn or diverted
19 and transported for use on other property is considered to be taxable
20 property in the county for purposes of determining assessed valuation in the
21 county under this item.

22 (ii) The proportion that the ~~distribution base~~ monies collected during
23 the calendar month in each county under this article, section 42-5164,
24 subsection B, section 42-5205, subsection B and section 42-5353 bear to the
25 total ~~distribution base~~ monies collected under this article, section 42-5164,
26 subsection B, section 42-5205, subsection B and section 42-5353 throughout
27 the state for the calendar month.

28 (b) If the proportion computed under subdivision (a) of this paragraph
29 for any county is greater than the proportion computed under paragraph 2 of
30 this subsection, the department shall compute the difference between the
31 amount distributed to that county under paragraph 2 of this subsection and
32 the amount that would have been distributed under paragraph 2 of this
33 subsection using the proportion computed under subdivision (a) of this
34 paragraph and shall pay that difference to the county from the amount
35 available for distribution under this paragraph. Any monies remaining after
36 all payments under this subdivision shall be distributed among the counties
37 according to the proportions computed under paragraph 2 of this subsection.

38 ~~4.~~ E. After any distributions required by sections 42-5030,
39 42-5030.01, 42-5031, 42-5032, 42-5032.01 and 42-5032.02, and after making any
40 transfer to the water quality assurance revolving fund as required by section
41 49-282, subsection B, **THE DEPARTMENT SHALL** credit the remainder of the monies
42 ~~designated as distribution base~~ to the state general fund. From this amount
43 the legislature shall annually appropriate to:

44 ~~(a)~~ 1. The department of revenue sufficient monies to administer and
45 enforce this article and articles 5 and 8 of this chapter.

1 ~~(b)~~ 2. The department of economic security monies to be used for the
2 purposes stated in title 46, chapter 1.
3 ~~(c)~~ 3. The firearms safety and ranges fund established by section
4 17-273, fifty thousand dollars derived from the taxes collected from the
5 retail classification pursuant to section 42-5061 for the current fiscal
6 year.
7 ~~E.~~ F. If approved by the qualified electors voting at a statewide
8 general election, all monies collected pursuant to section 42-5010,
9 subsection ~~G~~ B and section 42-5155, subsection D shall be distributed each
10 fiscal year pursuant to this subsection. The monies distributed pursuant to
11 this subsection are in addition to any other appropriation, transfer or other
12 allocation of public or private monies from any other source and shall not
13 supplant, replace or cause a reduction in other school district, charter
14 school, university or community college funding sources. The monies shall be
15 distributed as follows:
16 1. If there are outstanding state school facilities revenue bonds
17 pursuant to title 15, chapter 16, article 7, each month one-twelfth of the
18 amount that is necessary to pay the fiscal year's debt service on outstanding
19 state school improvement revenue bonds for the current fiscal year shall be
20 transferred each month to the school improvement revenue bond debt service
21 fund established by section 15-2084. The total amount of bonds for which
22 these monies may be allocated for the payment of debt service shall not
23 exceed a principal amount of eight hundred million dollars exclusive of
24 refunding bonds and other refinancing obligations.
25 2. After any transfer of monies pursuant to paragraph 1 of this
26 subsection, twelve per cent of the remaining monies collected during the
27 preceding month shall be transferred to the technology and research
28 initiative fund established by section 15-1648 to be distributed among the
29 universities for the purpose of investment in technology and research-based
30 initiatives.
31 3. After the transfer of monies pursuant to paragraph 1 of this
32 subsection, three per cent of the remaining monies collected during the
33 preceding month shall be transferred to the workforce development account
34 established in each community college district pursuant to section 15-1472
35 for the purpose of investment in workforce development programs.
36 4. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
37 subsection, one-twelfth of the amount a community college that is owned,
38 operated or chartered by a qualifying Indian tribe on its own Indian
39 reservation would receive pursuant to section 15-1472, subsection D,
40 paragraph 2 if it were a community college district shall be distributed each
41 month to the treasurer or other designated depository of a qualifying Indian
42 tribe. Monies distributed pursuant to this paragraph are for the exclusive
43 purpose of providing support to one or more community colleges owned,
44 operated or chartered by a qualifying Indian tribe and shall be used in a
45 manner consistent with section 15-1472, subsection B. For the purposes of

1 this paragraph, "qualifying Indian tribe" has the same meaning as defined in
2 section 42-5031.01, subsection D.

3 5. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
4 subsection, one-twelfth of the following amounts shall be transferred each
5 month to the department of education for the increased cost of basic state
6 aid under section 15-971 due to added school days and associated teacher
7 salary increases enacted in 2000:

8 (a) In fiscal year 2001-2002, \$15,305,900.

9 (b) In fiscal year 2002-2003, \$31,530,100.

10 (c) In fiscal year 2003-2004, \$48,727,700.

11 (d) In fiscal year 2004-2005, \$66,957,200.

12 (e) In fiscal year 2005-2006 and each fiscal year thereafter,
13 \$86,280,500.

14 6. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
15 subsection, seven million eight hundred thousand dollars is appropriated each
16 fiscal year, to be paid in monthly installments, to the department of
17 education to be used for school safety as provided in section 15-154 and two
18 hundred thousand dollars is appropriated each fiscal year, to be paid in
19 monthly installments to the department of education to be used for the
20 character education matching grant program as provided in section 15-154.01.

21 7. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
22 subsection, no more than seven million dollars may be appropriated by the
23 legislature each fiscal year to the department of education to be used for
24 accountability purposes as described in section 15-241 and title 15, chapter
25 9, article 8.

26 8. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
27 subsection, one million five hundred thousand dollars is appropriated each
28 fiscal year, to be paid in monthly installments, to the failing schools
29 tutoring fund established by section 15-241.

30 9. After transferring monies pursuant to paragraphs 1, 2 and 3 of this
31 subsection, twenty-five million dollars shall be transferred each fiscal year
32 to the state general fund to reimburse the general fund for the cost of the
33 income tax credit allowed by section 43-1072.01.

34 10. After the payment of monies pursuant to paragraphs 1 through 9 of
35 this subsection, the remaining monies collected during the preceding month
36 shall be transferred to the classroom site fund established by section
37 15-977. The monies shall be allocated as follows in the manner prescribed by
38 section 15-977:

39 (a) Forty per cent shall be allocated for teacher compensation based
40 on performance.

41 (b) Twenty per cent shall be allocated for increases in teacher base
42 compensation and employee related expenses.

43 (c) Forty per cent shall be allocated for maintenance and operation
44 purposes.

1 ~~F.~~ G. The department shall credit the remainder of the monies in the
2 transaction privilege and severance tax clearing account to the state general
3 fund, subject to any distribution required by section 42-5030.01.

4 ~~G.~~ H. Notwithstanding subsection D of this section, if a court of
5 competent jurisdiction finally determines that tax monies distributed under
6 this section were illegally collected under this article or articles 5 and 8
7 of this chapter and orders the monies to be refunded to the taxpayer, the
8 department shall compute the amount of such monies that was distributed to
9 each city, town and county under this section. The department shall notify
10 the state treasurer of that amount plus the proportionate share of additional
11 allocated costs required to be paid to the taxpayer. Each city's, town's and
12 county's proportionate share of the costs shall be based on the amount of the
13 original tax payment each municipality and county received. Each month the
14 state treasurer shall reduce the amount otherwise distributable to the city,
15 town and county under this section by one thirty-sixth of the total amount to
16 be recovered from the city, town or county until the total amount has been
17 recovered, but the monthly reduction for any city, town or county shall not
18 exceed ten per cent of the full monthly distribution to that entity. The
19 reduction shall begin for the first calendar month after the final
20 disposition of the case and shall continue until the total amount, including
21 interest and costs, has been recovered.

22 ~~H.~~ I. On receiving a certificate of default from the greater Arizona
23 development authority pursuant to section 41-2257 or 41-2258 and to the
24 extent not otherwise expressly prohibited by law, the state treasurer shall
25 withhold from the next succeeding distribution of monies pursuant to this
26 section due to the defaulting political subdivision the amount specified in
27 the certificate of default and immediately deposit the amount withheld in the
28 greater Arizona development authority revolving fund. The state treasurer
29 shall continue to withhold and deposit the monies until the greater Arizona
30 development authority certifies to the state treasurer that the default has
31 been cured. In no event may the state treasurer withhold any amount that the
32 defaulting political subdivision certifies to the state treasurer and the
33 authority as being necessary to make any required deposits then due for the
34 payment of principal and interest on bonds of the political subdivision that
35 were issued before the date of the loan repayment agreement or bonds and that
36 have been secured by a pledge of distributions made pursuant to this section.

37 ~~I.~~ J. Except as provided by sections 42-5033 and 42-5033.01, the
38 population of a county, city or town as determined by the most recent United
39 States decennial census plus any revisions to the decennial census certified
40 by the United States bureau of the census shall be used as the basis for
41 apportioning monies pursuant to subsection D of this section.

42 ~~J.~~ K. Except as otherwise provided by this subsection, on notice from
43 the department of revenue pursuant to section 42-6010, subsection B, the
44 state treasurer shall withhold from the distribution of monies pursuant to
45 this section to the affected city or town the amount of the penalty for

1 business location municipal tax incentives provided by the city or town to a
2 business entity that locates a retail business facility in the city or
3 town. The state treasurer shall continue to withhold monies pursuant to this
4 subsection until the entire amount of the penalty has been withheld. The
5 state treasurer shall credit any monies withheld pursuant to this subsection
6 to the state general fund ~~as provided by subsection D, paragraph 4 of this~~
7 ~~section~~. The state treasurer shall not withhold any amount that the city or
8 town certifies to the department of revenue and the state treasurer as being
9 necessary to make any required deposits or payments for debt service on bonds
10 or other long-term obligations of the city or town that were issued or
11 incurred before the location incentives provided by the city or town.

12 ~~K.~~ L. On notice from the auditor general pursuant to section 9-626,
13 subsection D, the state treasurer shall withhold from the distribution of
14 monies pursuant to this section to the affected city the amount computed
15 pursuant to section 9-626, subsection D. The state treasurer shall continue
16 to withhold monies pursuant to this subsection until the entire amount
17 specified in the notice has been withheld. The state treasurer shall credit
18 any monies withheld pursuant to this subsection to the state general fund ~~as~~
19 ~~provided by subsection D, paragraph 4 of this section~~.

20 ~~L.~~ M. For the purposes of this section, "community college district"
21 means a community college district that is established pursuant to sections
22 15-1402 and 15-1403 and that is a political subdivision of this state and,
23 unless otherwise specified, includes a community college district established
24 pursuant to section 15-1402.01 and a provisional community college district
25 established pursuant to section 15-1409.

26 Sec. 4. Section 42-5061, Arizona Revised Statutes, is amended to read:
27 42-5061. Retail classification: definition

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

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

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

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

41 ~~4. Sales of tangible personal property by any nonprofit organization~~
42 ~~organized and operated exclusively for charitable purposes and recognized by~~
43 ~~the United States internal revenue service under section 501(c)(3) of the~~
44 ~~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 that is properly included in any other business~~
5 ~~classification that is taxable under this article.~~

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

7 ~~8.~~ 1. Drugs and medical oxygen, including delivery hose, mask or
8 tent, regulator and tank, on the prescription of a member of the medical,
9 dental or veterinarian profession who is licensed by law to administer such
10 substances.

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

14 ~~10.~~ 2. Insulin, insulin syringes and glucose test strips.

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

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

17 ~~13. Durable medical equipment which has a centers for medicare and~~
18 ~~medicaid services common procedure code, is designated reimbursable by~~
19 ~~medicare, is prescribed by a person who is licensed under title 32, chapter~~
20 ~~7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and~~
21 ~~customarily used to serve a medical purpose, is generally not useful to a~~
22 ~~person in the absence of illness or injury and is appropriate for use in the~~
23 ~~home.~~

24 ~~14. Sales to nonresidents of this state for use outside this state if~~
25 ~~the vendor ships or delivers the tangible personal property out of this~~
26 ~~state.~~

27 ~~15.~~ 3. Food, as provided in and subject to the conditions of article 3
28 of this chapter and section 42-5074.

29 ~~16.~~ 4. Items purchased with United States department of agriculture
30 food stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91
31 Stat. 958) or food instruments issued under section 17 of the child nutrition
32 act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States
33 Code section 1786).

34 ~~17. Textbooks by any bookstore that are required by any state~~
35 ~~university or community college.~~

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

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

1 ~~20. Lottery tickets or shares pursuant to title 5, chapter 5.1,~~
2 ~~article 1.~~

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

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

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

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

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

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

26 ~~25. Tangible personal property sold to:~~

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

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

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

36 ~~(d) A qualifying community health center as defined in section~~
37 ~~42-5001.~~

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

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

1 ~~used by the organization solely to provide residential apartment housing for~~
2 ~~low income persons over sixty two years of age in a facility that qualifies~~
3 ~~for a federal housing subsidy.~~

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

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

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

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

16 ~~28. The sale of a motor vehicle to:~~

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

22 ~~(b) An enrolled member of an Indian tribe who resides on the Indian~~
23 ~~reservation established for that tribe.~~

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

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

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

41 ~~32. Sales of tangible personal property by a nonprofit organization~~
42 ~~that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),~~
43 ~~501(c)(7) or 501(c)(8) of the internal revenue code if the organization~~
44 ~~sponsors or operates a rodeo featuring primarily farm and ranch animals and~~

1 ~~no part of the organization's net earnings inures to the benefit of any~~
2 ~~private shareholder or individual.~~

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

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

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

15 ~~36. Sales of natural gas or liquefied petroleum gas used to propel a~~
16 ~~motor vehicle.~~

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

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

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

44 ~~40. Through December 31, 1994, personal property liquidation~~
45 ~~transactions, conducted by a personal property liquidator. From and after~~

1 ~~December 31, 1994, personal property liquidation transactions shall be~~
2 ~~taxable under this section provided that nothing in this subsection shall be~~
3 ~~construed to authorize the taxation of casual activities or transactions~~
4 ~~under this chapter. For the purposes of this paragraph:~~

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23 ~~52. Sales of tangible personal property to be incorporated or installed~~
24 ~~as part of environmental response or remediation activities under section~~
25 ~~42-5075, subsection B, paragraph 6.~~

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

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

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

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

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

42 ~~56. Sales of motor vehicle fuel and use fuel to a qualified business~~
43 ~~under section 41-1516 for off-road use in harvesting, processing or~~
44 ~~transporting qualifying forest products removed from qualifying projects as~~
45 ~~defined in section 41-1516.~~

1 ~~57. Sales of repair parts installed in equipment used directly by a~~
2 ~~qualified business under section 41-1516 in harvesting, processing or~~
3 ~~transporting qualifying forest products removed from qualifying projects as~~
4 ~~defined in section 41-1516.~~

5 ~~58. Sales or other transfers of renewable energy credits or any other~~
6 ~~unit created to track energy derived from renewable energy resources. For~~
7 ~~the purposes of this paragraph, "renewable energy credit" means a unit~~
8 ~~created administratively by the corporation commission or governing body of a~~
9 ~~public power utility to track kilowatt hours of electricity derived from a~~
10 ~~renewable energy resource or the kilowatt hour equivalent of conventional~~
11 ~~energy resources displaced by distributed renewable energy resources.~~

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

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

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

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

35 ~~4. Machinery, equipment or transmission lines used directly in~~
36 ~~producing or transmitting electrical power, but not including distribution.~~
37 ~~Transformers and control equipment used at transmission substation sites~~
38 ~~constitute equipment used in producing or transmitting electrical power.~~

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

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

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

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

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

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

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

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

23 ~~10. Machinery or equipment used directly to drill for oil or gas or~~
24 ~~used directly in the process of extracting oil or gas from the earth for~~
25 ~~commercial purposes.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

42 ~~(a) Includes the integrated systems, fixtures, piping, movable~~
43 ~~partitions, lighting and all property that is necessary or adapted to reduce~~
44 ~~contamination or to control airflow, temperature, humidity, chemical purity~~
45 ~~or other environmental conditions or manufacturing tolerances, as well as the~~

1 ~~production machinery and equipment operating in conjunction with the clean~~
2 ~~room environment.~~

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

5 ~~17. Machinery and equipment used directly in the feeding of poultry,~~
6 ~~the environmental control of housing for poultry, the movement of eggs within~~
7 ~~a production and packaging facility or the sorting or cooling of eggs. This~~
8 ~~exemption does not apply to vehicles used for transporting eggs.~~

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

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

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

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

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

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

38 ~~21. Qualifying equipment that is purchased from and after June 30, 2004~~
39 ~~through June 30, 2024 by a qualified business under section 41-1516 for~~
40 ~~harvesting or processing qualifying forest products removed from qualifying~~
41 ~~projects as defined in section 41-1516. To qualify for this deduction, the~~
42 ~~qualified business at the time of purchase must present its certification~~
43 ~~approved by the department.~~

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

- 1 ~~1. Expendable materials. For the purposes of this paragraph,~~
2 ~~expendable materials do not include any of the categories of tangible~~
3 ~~personal property specified in subsection B of this section regardless of the~~
4 ~~cost or useful life of that property.~~
- 5 ~~2. Janitorial equipment and hand tools.~~
- 6 ~~3. Office equipment, furniture and supplies.~~
- 7 ~~4. Tangible personal property used in selling or distributing~~
8 ~~activities, other than the telecommunications transmissions described in~~
9 ~~subsection B, paragraph 16 of this section.~~
- 10 ~~5. Motor vehicles required to be licensed by this state, except buses~~
11 ~~or other urban mass transit vehicles specifically exempted pursuant to~~
12 ~~subsection B, paragraph 11 of this section, without regard to the use of such~~
13 ~~motor vehicles.~~
- 14 ~~6. Shops, buildings, docks, depots and all other materials of whatever~~
15 ~~kind or character not specifically included as exempt.~~
- 16 ~~7. Motors and pumps used in drip irrigation systems.~~
- 17 ~~D. In addition to the deductions from the tax base prescribed by~~
18 ~~subsection A of this section, there shall be deducted from the tax base the~~
19 ~~gross proceeds of sales or gross income derived from sales of machinery,~~
20 ~~equipment, materials and other tangible personal property used directly and~~
21 ~~predominantly to construct a qualified environmental technology~~
22 ~~manufacturing, producing or processing facility as described in section~~
23 ~~41-1514.02. This subsection applies for ten full consecutive calendar or~~
24 ~~fiscal years after the start of initial construction.~~
- 25 ~~E. In computing the tax base, gross proceeds of sales or gross income~~
26 ~~from retail sales of heavy trucks and trailers does not include any amount~~
27 ~~attributable to federal excise taxes imposed by 26 United States Code section~~
28 ~~4051.~~
- 29 ~~F. In computing the tax base, gross proceeds of sales or gross income~~
30 ~~from the sale of use fuel, as defined in section 28-5601, does not include~~
31 ~~any amount attributable to federal excise taxes imposed by 26 United States~~
32 ~~Code section 4091.~~
- 33 ~~G.~~ B. If a person is engaged in an occupation or business to which
34 subsection A of this section applies, the person's books shall be kept so as
35 to show separately the gross proceeds of sales of tangible personal property
36 and the gross income from sales of services, and if not so kept the tax shall
37 be imposed on the total of the person's gross proceeds of sales of tangible
38 personal property and gross income from services.
- 39 ~~H.~~ C. If a person is engaged in the business of selling tangible
40 personal property at both wholesale and retail, the tax under this section
41 applies only to the gross proceeds of the sales made other than at wholesale
42 if the person's books are kept so as to show separately the gross proceeds of
43 sales of each class, and if the books are not so kept, the tax under this
44 section applies to the gross proceeds of every sale so made.

1 ~~I~~. D. A person who engages in manufacturing, baling, crating, boxing,
2 barreling, canning, bottling, sacking, preserving, processing or otherwise
3 preparing for sale or commercial use any livestock, agricultural or
4 horticultural product or any other product, article, substance or commodity
5 and who sells the product of such business at retail in this state is deemed,
6 as to such sales, to be engaged in business classified under the retail
7 classification. This subsection does not apply to businesses classified
8 under the:

- 9 1. Transporting classification.
- 10 2. Utilities classification.
- 11 3. Telecommunications classification.
- 12 4. Pipeline classification.
- 13 5. Private car line classification.
- 14 6. Publication classification.
- 15 7. Job printing classification.
- 16 8. Prime contracting classification.
- 17 9. Owner builder sales classification.
- 18 10. Restaurant classification.

19 11. SERVICES CLASSIFICATION.

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

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

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

28 ~~3. Overhead materials or other tangible personal property that is used~~
29 ~~in performing a contract between the United States government and a~~
30 ~~manufacturer, modifier, assembler or repairer, including property used in~~
31 ~~performing a subcontract with a government contractor who is a manufacturer,~~
32 ~~modifier, assembler or repairer, to which title passes to the government~~
33 ~~under the terms of the contract or subcontract.~~

34 ~~4. Sales of overhead materials or other tangible personal property to~~
35 ~~a manufacturer, modifier, assembler or repairer if the gross proceeds of~~
36 ~~sales or gross income derived from the property by the manufacturer,~~
37 ~~modifier, assembler or repairer will be exempt under paragraph 3 of this~~
38 ~~subsection.~~

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

43 ~~L. The department shall require every person claiming a deduction~~
44 ~~provided by subsection J or K of this section to file on forms prescribed by~~
45 ~~the department at such times as the department directs a sworn statement~~

1 ~~disclosing the name of the purchaser and the exact amount of sales on which~~
2 ~~the exclusion or deduction is claimed.~~

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

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

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

8 ~~N. There shall be deducted from the tax base the amount received from~~
9 ~~sales of solar energy devices. The retailer shall register with the~~
10 ~~department as a solar energy retailer. By registering, the retailer~~
11 ~~acknowledges that it will make its books and records relating to sales of~~
12 ~~solar energy devices available to the department for examination.~~

13 ~~O. In computing the tax base in the case of the sale or transfer of~~
14 ~~wireless telecommunications equipment as an inducement to a customer to enter~~
15 ~~into or continue a contract for telecommunications services that are taxable~~
16 ~~under section 42-5064, gross proceeds of sales or gross income does not~~
17 ~~include any sales commissions or other compensation received by the retailer~~
18 ~~as a result of the customer entering into or continuing a contract for the~~
19 ~~telecommunications services.~~

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

25 ~~Q.~~ E. Retail sales of prepaid calling cards or prepaid authorization
26 numbers for telecommunications services, including sales of reauthorization
27 of a prepaid card or authorization number, are subject to tax under this
28 section.

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

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

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

37 ~~S. If a seller is entitled to a deduction pursuant to subsection B,~~
38 ~~paragraph 15, subdivision (b) of this section, the department may require the~~
39 ~~purchaser to establish that the requirements of subsection B, paragraph 15,~~
40 ~~subdivision (b) of this section have been satisfied. If the purchaser cannot~~
41 ~~establish that the requirements of subsection B, paragraph 15, subdivision~~
42 ~~(b) of this section have been satisfied, the purchaser is liable in an amount~~
43 ~~equal to any tax, penalty and interest which the seller would have been~~
44 ~~required to pay under article 1 of this chapter if the seller had not made a~~
45 ~~deduction pursuant to subsection B, paragraph 15, subdivision (b) of this~~

1 ~~section. Payment of the amount under this subsection exempts the purchaser~~
2 ~~from liability for any tax imposed under article 4 of this chapter and~~
3 ~~related to the tangible personal property purchased. The amount shall be~~
4 ~~treated as transaction privilege tax to the purchaser and as tax revenues~~
5 ~~collected from the seller to designate the distribution base pursuant to~~
6 ~~section 42-5029.~~

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

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

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

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

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

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

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

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

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

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

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

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

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

30 42-5077. Services classification; exemption

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

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

34 (a) LEGAL SERVICES.

35 (b) ARCHITECTURAL AND ENGINEERING SERVICES.

36 (c) SPECIALIZED DESIGN SERVICES.

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

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

40 (f) SCIENTIFIC RESEARCH AND DEVELOPMENT SERVICES.

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

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

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

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

45 (a) PHYSICIANS.

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

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

1 (w) SWIMMING POOL SERVICES, INCLUDING CLEANING AND MAINTENANCE
2 SERVICES.

3 (x) WATER SOFTENING AND CONDITIONING SERVICES.

4 (y) WINDOW CLEANING SERVICES.

5 (z) CABLE TELEVISION SERVICES.

6 (aa) CHARTERED FLIGHT SERVICES.

7 (bb) TAXIDERMY SERVICES.

8 (cc) INSTALLATION SERVICES.

9 B. THE TAX BASE FOR THE SERVICES CLASSIFICATION IS THE GROSS PROCEEDS
10 OF SALES OR GROSS INCOME DERIVED FROM THE BUSINESS. THE TAX IMPOSED ON THE
11 SERVICES CLASSIFICATION DOES NOT APPLY TO THE GROSS PROCEEDS OF SALES OR
12 GROSS INCOME FROM THE FOLLOWING BUSINESS SERVICES IF THE SERVICE INVOLVES A
13 BUSINESS-TO-BUSINESS TRANSACTION:

14 1. LEGAL.

15 2. ARCHITECTURAL AND ENGINEERING.

16 3. MANAGEMENT, SCIENTIFIC AND TECHNICAL CONSULTING.

17 4. ACCOUNTING, TAX PREPARATION AND BOOKKEEPING.

18 5. OFFICE ADMINISTRATIVE SERVICES.

19 6. EMPLOYMENT PLACEMENT AND EXECUTIVE SEARCH SERVICES.

20 7. DATA PROCESSING, HOSTING AND RELATED SERVICES.

21 8. COMMERCIAL AND INDUSTRIAL MACHINERY REPAIR AND MAINTENANCE.

22 9. BUSINESS SUPPORT SERVICES.

23 Sec. 6. Delayed repeal

24 A. Title 42, chapter 5, article 3, Arizona Revised Statutes, is
25 repealed from and after December 31, 2016.

26 B. Section 42-5159, Arizona Revised Statutes, is repealed from and
27 after December 31, 2016.

28 Sec. 7. Section 43-206, Arizona Revised Statutes, is amended to read:

29 43-206. Urban revenue sharing fund; allocation; distribution

30 A. There is established an urban revenue sharing fund. ~~IN FISCAL YEAR~~
31 ~~2018-2019~~, the fund shall consist of ~~an amount equal to fifteen per cent of~~
32 ~~the net proceeds of the state income taxes for the fiscal year two years~~
33 ~~preceding the current fiscal year~~ \$424,400,000 APPROPRIATED FROM THE STATE
34 GENERAL FUND, AND EACH FISCAL YEAR AFTER 2018-2019 THIS AMOUNT SHALL BE
35 INCREASED BY ____ PER CENT. The URBAN REVENUE SHARING fund shall be
36 distributed to incorporated cities and towns as provided in this section,
37 except that a city or town shall receive at least an amount equal to what a
38 city or town with a population of fifteen hundred or more persons would
39 receive. The transfer of net proceeds prescribed by section 49-282,
40 subsection B does not affect the calculation of net proceeds prescribed by
41 this subsection.

42 B. Each city or town shall share in the urban revenue sharing fund in
43 the proportion that the population of each bears to the population of all.
44 Except as provided by sections 42-5033 and 42-5033.01, the population of a
45 city or town as determined by the most recent United States decennial census

1 plus any revisions to the decennial census certified by the United States
2 bureau of the census shall be used as the basis for apportioning monies
3 pursuant to this subsection.

4 C. The treasurer, ~~upon~~ ON instruction from the department, shall
5 transmit, no later than the tenth day of each month, to each city or town an
6 amount equal to one-twelfth of that city's or town's total entitlement for
7 the current fiscal year from the urban revenue sharing fund as determined by
8 the department.

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

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

27 Sec. 8. Delayed repeal

28 Title 43, chapters 10 and 11, Arizona Revised Statutes, are repealed
29 from and after December 31, 2016.

30 Sec. 9. Transaction privilege tax rate task force;
31 determination of final rate; report; JLBC approval

32 A. The transaction privilege tax rate task force to recommend a final
33 transaction privilege tax rate is established consisting of:

34 1. The members of the economic estimates commission.

35 2. Two additional members, one of whom is appointed by the president
36 of the senate and one of whom is appointed by the speaker of the house of
37 representatives.

38 B. The task force shall meet on an annual basis to review the fiscal
39 impact of this act, recommend a transaction privilege tax rate and propose
40 recommended legislative changes that support the purposes of this act. The
41 task force may use independent outside resources and expertise at the
42 department of revenue, universities and independent private research
43 organizations.

44 C. On or before December 31, 2015, the task force shall issue a report
45 that recommends to the joint legislative budget committee a transaction

1 privilege tax rate and additional changes that support the purposes of this
2 act. The recommended rate shall be a revenue neutral rate that is based on
3 the broadening of the transaction privilege tax base and repeal of the
4 individual and corporate income taxes under this act. The task force shall
5 report its findings and recommendations to the governor, the speaker of the
6 house of representatives, the president of the senate, the chairpersons of
7 the house of representatives ways and means committee and the senate finance
8 committee, the joint legislative budget committee and the department of
9 revenue.

10 D. On or before December 31, 2016, the joint legislative budget
11 committee shall consider the task force's recommended rate and approve the
12 final transaction privilege tax rate that is a revenue neutral rate based on
13 the broadening of the transaction privilege tax base and repeal of the
14 individual and corporate income taxes under this act.

15 Sec. 10. Conforming legislation

16 The legislative council staff shall prepare proposed legislation
17 conforming the Arizona Revised Statutes to the provisions of this act for
18 consideration in the fifty-second legislature, second regular session.

19 Sec. 11. Effective date

20 Sections 42-5001, 42-5010, 42-5029, 42-5061 and 43-206, Arizona Revised
21 Statutes, as amended by this act, and section 42-5077, Arizona Revised
22 Statutes, as added by this act, are effective and apply to taxable years
23 beginning from and after December 31, 2016.