

COMMITTEE ON APPROPRIATIONS  
SENATE AMENDMENTS TO S.B. 1174  
(Reference to printed bill)

1 Strike everything after the enacting clause and insert:

2 "Section 1. Section 28-8322, Arizona Revised Statutes, is amended to  
3 read:

4 28-8322. Registration: exceptions

5 A. Aircraft based in this state shall be registered with the  
6 department.

7 B. A person or governmental entity shall register an aircraft by  
8 applying to the department on a form provided by the department within sixty  
9 days after the aircraft is ~~brought into~~ **BASED IN** this state. A person who  
10 registers an aircraft shall renew the registration annually for each calendar  
11 year on or before the last day of February **IF THAT AIRCRAFT WILL BE BASED IN**  
12 **THIS STATE DURING THE NEXT CALENDAR YEAR. FOR THE PURPOSES OF THIS**  
13 **SUBSECTION:**

14 1. **"BASED" MEANS AN AIRCRAFT IS LOCATED IN THIS STATE FOR AT LEAST**  
15 **NINETY CONSECUTIVE DAYS OR AT LEAST NINETY CUMULATIVE DAYS WITHIN A CALENDAR**  
16 **YEAR. FOR THE PURPOSES OF THIS PARAGRAPH, A DAY IS CALCULATED BASED ON EACH**  
17 **TWELVE CONSECUTIVE HOURS WITHIN A CALENDAR DAY THAT THE AIRCRAFT IS PARKED AT**  
18 **AN AIRPORT, A HELIPORT OR A SEAPORT.**

19 2. **"PARKED" MEANS THE TIME THAT AN AIRCRAFT SPENDS ON THE GROUND**  
20 **WITHOUT ANY OF THE AIRCRAFT'S POWER PLANTS OPERATING.**

21 C. The department shall not issue a registration certificate for an  
22 aircraft to a person who is subject to the use tax paid pursuant to title 42,  
23 chapter 5, article 4 unless the applicable tax has been paid as shown by a  
24 receipt from the collecting officer.

25 D. Subsections A and B **OF THIS SECTION** do not apply to aircraft that  
26 is:

1           1. Operated by an airline company and regularly scheduled for the  
2 primary purpose of carrying persons or property for hire in interstate,  
3 intrastate or international transportation.

4           2. Owned by a nonresident who bases the aircraft in this state for a  
5 period of not more than ninety consecutive days or ninety days in any one  
6 calendar year, if the aircraft is not engaged in intrastate commercial  
7 activity.

8           E. Aircraft, except aircraft included in subsection D, paragraph 1 OF  
9 THIS SECTION, entering ~~the~~ THIS state to engage in intrastate commercial  
10 operations shall be registered before commencing these operations.

11           Sec. 2. Section 28-8325, Arizona Revised Statutes, is amended to read:

12           28-8325. Registration fee; certificate

13           ~~A.~~ On payment of a registration fee of five dollars, the license tax  
14 and the penalty, if any, the department shall issue a certificate ~~and license~~  
15 ~~decal.~~

16           ~~B. The license decal shall be displayed on the aircraft at all times~~  
17 ~~in the manner prescribed by the department.~~

18           ~~C. On satisfactory proof of the loss or destruction of the license~~  
19 ~~decal, the department shall issue a duplicate of the license decal to the~~  
20 ~~owner on payment of a four dollar fee.~~

21           Sec. 3. Section 28-8335, Arizona Revised Statutes, is amended to read:

22           28-8335. License tax; tax rate

23           A. An annual license tax is imposed on all aircraft based in this  
24 state and required to be registered pursuant to this article, unless an  
25 exemption for the aircraft is established pursuant to this article. The  
26 license tax is payable to the department on initial registration and annually  
27 on or before the last day of February.

28           B. Except as provided in sections ~~28-8336 through 28-8341~~ 28-8337,  
29 28-8338, 28-8339 AND 28-8340, the department shall determine and assess the  
30 license tax prescribed by subsection A of this section on the FOLLOWING  
31 basis: ~~of one-half per cent of the average fair market value of the~~  
32 ~~particular make, model and year of aircraft. The tax assessed under this~~

1 ~~subsection shall not be less than twenty dollars for a full year of~~  
2 ~~registration.~~

3 1. FOR A SINGLE-ENGINE RECIPROCATING OR DIESEL-POWERED AIRCRAFT, TWO  
4 HUNDRED FIFTY DOLLARS.

5 2. FOR A SINGLE-ENGINE TURBOPROP-POWERED AIRCRAFT, SEVEN HUNDRED FIFTY  
6 DOLLARS.

7 3. FOR A SINGLE-ENGINE TURBINE-POWERED AIRCRAFT, ONE THOUSAND FIVE  
8 HUNDRED DOLLARS.

9 4. FOR A MULTI-ENGINE RECIPROCATING OR DIESEL-POWERED AIRCRAFT, FIVE  
10 HUNDRED DOLLARS.

11 5. FOR A MULTI-ENGINE TURBOPROP-POWERED AIRCRAFT, ONE THOUSAND FIVE  
12 HUNDRED DOLLARS.

13 6. FOR A MULTI-ENGINE TURBINE-POWERED AIRCRAFT, THREE THOUSAND  
14 DOLLARS.

15 Sec. 4. Repeal

16 Section 28-8336, Arizona Revised Statutes, is repealed.

17 Sec. 5. Section 28-8337, Arizona Revised Statutes, is amended to read:

18 28-8337. Stored or repaired aircraft; license tax rate

19 A. The annual license tax for aircraft that is in storage or that is  
20 being repaired is ~~twenty~~ FIFTY dollars for each aircraft, ~~except for an~~  
21 ~~aircraft taxed under section 28-8341.~~

22 B. To qualify for the tax under this section, the aircraft owner shall  
23 annually file a sworn affidavit on a form provided by the department with the  
24 department not later than the last day of February or within sixty days after  
25 the aircraft is placed in storage or under repair on entry into this state.

26 C. The owner of an aircraft that is subject to the tax under this  
27 section shall notify the department within ten days of the date the aircraft  
28 is returned to use and shall pay the appropriate license tax, if any,  
29 prorated on the basis of one-twelfth for each month remaining in the calendar  
30 year beginning with the first month the aircraft is restored to use.

31 Sec. 6. Section 28-8338, Arizona Revised Statutes, is amended to read:

32 28-8338. Salvage aircraft; license tax rate; definition

1           A. The annual license tax for a salvage aircraft that is in storage or  
2 that is being restored is ~~five~~ TWENTY dollars for each aircraft, and the tax  
3 shall not be prorated.

4           B. To qualify for the tax under this section, the salvage aircraft  
5 owner shall annually file a sworn affidavit on a form provided by the  
6 department with the department not later than the last day of February or  
7 within sixty days after the aircraft is placed in storage or under  
8 restoration on entry into this state.

9           C. The salvage aircraft owner who is subject to the tax under this  
10 section shall notify the department within ten days of the date the aircraft  
11 is returned to use and shall pay the appropriate license tax, if any,  
12 prorated on the basis of one-twelfth for each month remaining in the calendar  
13 year beginning with the first month the aircraft is returned to use.

14           D. For the purposes of this section, "salvage aircraft" means an  
15 aircraft that is being restored and that is not meant to be flown.

16           Sec. 7. Section 28-8339, Arizona Revised Statutes, is amended to read:  
17 28-8339. Special aircraft; license tax rate; definitions

18           A. The annual license tax for an antique, classic, warbird, glider,  
19 experimental, homebuilt or balloon aircraft is ~~twenty~~ FIFTY dollars for each  
20 aircraft.

21           B. To qualify for the tax under this section, the aircraft owner shall  
22 annually apply on a form provided by the department to the department not  
23 later than the last day of February or within sixty days after entry into  
24 this state.

25           C. For the purposes of this section:

26           1. "Antique aircraft" means an aircraft that has a year of original  
27 manufacture and federal certification that is fifty years old or older.

28           2. "Balloon" means either:

29           (a) An aircraft that is a flexible, nonporous bag inflated with a gas  
30 lighter than air.

31           (b) A hot air balloon.

1           3. "Classic aircraft" means an aircraft that has a year of original  
2 manufacture and federal certification that is at least forty years old but  
3 not more than forty-nine years old.

4           4. "Experimental aircraft" means an aircraft that is designated as  
5 experimental on its federal aviation administration airworthiness  
6 certificate.

7           5. "Glider aircraft" means a light, engineless aircraft that is  
8 designed to glide after being towed aloft or launched from a catapult.

9           6. "Homebuilt aircraft" means an aircraft that is constructed  
10 primarily by an individual for the individual's personal use excluding an  
11 aircraft that is constructed primarily by a for profit aircraft manufacturing  
12 business.

13           7. "Warbird aircraft" means an aircraft that is built before January  
14 1, 1948 expressly for the purpose of military service.

15           Sec. 8. Repeal

16           Sections 28-8341 and 28-8342, Arizona Revised Statutes, are repealed.

17           Sec. 9. Section 28-8345, Arizona Revised Statutes, is amended to read:  
18 28-8345. Registration fees; penalties; taxes; distribution

19           A. Monies received ~~from the registration fees collected~~ pursuant to  
20 this article shall be deposited, pursuant to sections 35-146 and 35-147, in  
21 the state aviation fund~~—~~, EXCEPT THAT monies received from civil penalties  
22 collected pursuant to ~~this article~~ SECTION 28-8347 shall be deposited,  
23 pursuant to sections 35-146 and 35-147, in the state general fund.

24           B. Not later than the fifteenth day of each month, the department  
25 shall transmit monies received from the taxes imposed under this article to  
26 the state treasurer who shall deposit the monies in the state aviation fund  
27 for use in the construction, development and improvement of airports.

28           Sec. 10. Section 42-5061, Arizona Revised Statutes, as amended by Laws  
29 2013, first regular session, chapter 120, section 1 and chapter 233, section  
30 1 and Laws 2013, first special session, chapter 9, section 5, is amended to  
31 read:

32           42-5061. Retail classification; definitions

1           A. The retail classification is comprised of the business of selling  
2 tangible personal property at retail. The tax base for the retail  
3 classification is the gross proceeds of sales or gross income derived from  
4 the business. The tax imposed on the retail classification does not apply to  
5 the gross proceeds of sales or gross income from:

6           1. Professional or personal service occupations or businesses that  
7 involve sales or transfers of tangible personal property only as  
8 inconsequential elements.

9           2. Services rendered in addition to selling tangible personal property  
10 at retail.

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

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

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

21           6. Business activity that is properly included in any other business  
22 classification that is taxable under this article.

23           7. The sale of stocks and bonds.

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

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

30           10. Insulin, insulin syringes and glucose test strips.

31           11. Prescription eyeglasses or contact lenses.

32           12. Hearing aids as defined in section 36-1901.

1           13. Durable medical equipment ~~which~~ THAT has a centers for medicare and  
2           medicaid services common procedure code, is designated reimbursable by  
3           medicare, is prescribed by a person who is licensed under title 32, chapter  
4           7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and  
5           customarily used to serve a medical purpose, is generally not useful to a  
6           person in the absence of illness or injury and is appropriate for use in the  
7           home.

8           14. Sales OF MOTOR VEHICLES to nonresidents of this state for use  
9           outside this state if the ~~vendor~~ MOTOR VEHICLE DEALER ships or delivers the  
10          ~~tangible personal property~~ MOTOR VEHICLE TO A DESTINATION out of this state.

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

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

18          17. Textbooks by any bookstore that are required by any state  
19          university or community college.

20          18. Food and drink to a person ~~who~~ THAT is engaged in A business that  
21          is classified under the restaurant classification and that provides such food  
22          and drink without monetary charge to its employees for their own consumption  
23          on the premises during the employees' hours of employment.

24          19. Articles of food, drink or condiment and accessory tangible  
25          personal property to a school district or charter school if such articles and  
26          accessory tangible personal property are to be prepared and served to persons  
27          for consumption on the premises of a public school within the district or on  
28          the premises of the charter school during school hours.

29          20. Lottery tickets or shares pursuant to title 5, chapter 5.1, article  
30          1.

31          21. The sale of cash equivalent and the sale of precious metal bullion  
32          and monetized bullion to the ultimate consumer, but the sale of coins or

1 other forms of money for manufacture into jewelry or works of art is subject  
2 to the tax and the gross proceeds of sales or gross income derived from the  
3 redemption of any cash equivalent by the holder as a means of payment for  
4 goods or services that are taxable under this article is subject to the tax.  
5 For the purposes of this paragraph:

6 (a) "Cash equivalents" means items or intangibles, whether or not  
7 negotiable, that are sold to one or more persons, through which a value  
8 denominated in money is purchased in advance and may be redeemed in full or  
9 in part for tangible personal property, intangibles or services. Cash  
10 equivalents include gift cards, stored value cards, gift certificates,  
11 vouchers, traveler's checks, money orders or other instruments, orders or  
12 electronic mechanisms, such as an electronic code, personal identification  
13 number or digital payment mechanism, or any other prepaid intangible right to  
14 acquire tangible personal property, intangibles or services in the future,  
15 whether from the seller of the cash equivalent or from another person. Cash  
16 equivalents do not include either of the following:

17 (i) Items or intangibles that are sold to one or more persons, through  
18 which a value is not denominated in money.

19 (ii) Prepaid calling cards or prepaid authorization numbers for  
20 telecommunications services made taxable by subsection Q of this section.

21 (b) "Monetized bullion" means coins and other forms of money that are  
22 manufactured from gold, silver or other metals and that have been or are used  
23 as a medium of exchange in this or another state, the United States or a  
24 foreign nation.

25 (c) "Precious metal bullion" means precious metal, including gold,  
26 silver, platinum, rhodium and palladium, that has been smelted or refined so  
27 that its value depends on its contents and not on its form.

28 22. Motor vehicle fuel and use fuel that are subject to a tax imposed  
29 under title 28, chapter 16, article 1, sales of use fuel to a holder of a  
30 valid single trip use fuel tax permit issued under section 28-5739, sales of  
31 aviation fuel that are subject to the tax imposed under section 28-8344 and

1 sales of jet fuel that are subject to the tax imposed under article 8 of this  
2 chapter.

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

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

9 25. Tangible personal property sold to:

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

11 (b) A qualifying health care organization as defined in section  
12 42-5001 if the tangible personal property is used by the organization solely  
13 to provide health and medical related educational and charitable services.

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

19 (d) A qualifying community health center as defined in section  
20 42-5001.

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

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

1           26. Magazines or other periodicals or other publications by this state  
2 to encourage tourist travel.

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

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

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

13           28. The sale of a motor vehicle to:

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

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

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

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

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

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

12           33. Sales of seeds, seedlings, roots, bulbs, cuttings and other  
13 propagative material to persons who use those items to commercially produce  
14 agricultural, horticultural, viticultural or floricultural crops in this  
15 state.

16           34. Machinery, equipment, technology or related supplies that are only  
17 useful to assist a person who is physically disabled as defined in section  
18 46-191, has a developmental disability as defined in section 36-551 or has a  
19 head injury as defined in section 41-3201 to be more independent and  
20 functional.

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

24           ~~36.~~ 35. Sales of natural gas or liquefied petroleum gas used to propel  
25 a motor vehicle.

26           ~~37.~~ 36. Paper machine clothing, such as forming fabrics and dryer  
27 felts, sold to a paper manufacturer and directly used or consumed in paper  
28 manufacturing.

29           ~~38.~~ 37. Coal, petroleum, coke, natural gas, virgin fuel oil and  
30 electricity sold to a qualified environmental technology manufacturer,  
31 producer or processor as defined in section 41-1514.02 and directly used or  
32 consumed in the generation or provision of on-site power or energy solely for

1 environmental technology manufacturing, producing or processing or  
2 environmental protection. This paragraph shall apply for twenty full  
3 consecutive calendar or fiscal years from the date the first paper  
4 manufacturing machine is placed in service. In the case of an environmental  
5 technology manufacturer, producer or processor who does not manufacture  
6 paper, the time period shall begin with the date the first manufacturing,  
7 processing or production equipment is placed in service.

8 ~~39.~~ 38. Sales of liquid, solid or gaseous chemicals used in  
9 manufacturing, processing, fabricating, mining, refining, metallurgical  
10 operations, research and development and, beginning on January 1, 1999,  
11 printing, if using or consuming the chemicals, alone or as part of an  
12 integrated system of chemicals, involves direct contact with the materials  
13 from which the product is produced for the purpose of causing or permitting a  
14 chemical or physical change to occur in the materials as part of the  
15 production process. This paragraph does not include chemicals that are used  
16 or consumed in activities such as packaging, storage or transportation but  
17 does not affect any deduction for such chemicals that is otherwise provided  
18 by this section. For the purposes of this paragraph, "printing" means a  
19 commercial printing operation and includes job printing, engraving,  
20 embossing, copying and bookbinding.

21 ~~40.~~ 39. Through December 31, 1994, personal property liquidation  
22 transactions, conducted by a personal property liquidator. From and after  
23 December 31, 1994, personal property liquidation transactions shall be  
24 taxable under this section provided that nothing in this subsection shall be  
25 construed to authorize the taxation of casual activities or transactions  
26 under this chapter. For the purposes of this paragraph:

27 (a) "Personal property liquidation transaction" means a sale of  
28 personal property made by a personal property liquidator acting solely on  
29 behalf of the owner of the personal property sold at the dwelling of the  
30 owner or on the death of any owner, on behalf of the surviving spouse, if  
31 any, any devisee or heir or the personal representative of the estate of the  
32 deceased, if one has been appointed.

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

3 ~~41.~~ 40. Sales of food, drink and condiment for consumption within the  
4 premises of any prison, jail or other institution under the jurisdiction of  
5 the state department of corrections, the department of public safety, the  
6 department of juvenile corrections or a county sheriff.

7 ~~42.~~ 41. A motor vehicle and any repair and replacement parts and  
8 tangible personal property becoming a part of such motor vehicle sold to a  
9 motor carrier who is subject to a fee prescribed in title 28, chapter 16,  
10 article 4 and who is engaged in the business of leasing or renting such  
11 property.

12 ~~43.~~ 42. Livestock and poultry feed, salts, vitamins and other  
13 additives for livestock or poultry consumption that are sold to persons who  
14 are engaged in producing livestock, poultry, or livestock or poultry products  
15 or who are engaged in feeding livestock or poultry commercially. For the  
16 purposes of this paragraph, "poultry" includes ratites.

17 ~~44.~~ 43. Sales of implants used as growth promotants and injectable  
18 medicines, not already exempt under paragraph 8 of this subsection, for  
19 livestock or poultry owned by or in possession of persons who are engaged in  
20 producing livestock, poultry, or livestock or poultry products or who are  
21 engaged in feeding livestock or poultry commercially. For the purposes of  
22 this paragraph, "poultry" includes ratites.

23 ~~45.~~ 44. Sales of motor vehicles at auction to nonresidents of this  
24 state for use outside this state if the vehicles are shipped or delivered out  
25 of this state, regardless of where title to the motor vehicles passes or its  
26 free on board point.

27 ~~46.~~ 45. Tangible personal property sold to a person engaged in  
28 business and subject to tax under the transient lodging classification if the  
29 tangible personal property is a personal hygiene item or articles used by  
30 human beings for food, drink or condiment, except alcoholic beverages, that  
31 are furnished without additional charge to and intended to be consumed by the  
32 transient during the transient's occupancy.

1           ~~47.~~ 46. Sales of alternative fuel, as defined in section 1-215, to a  
2 used oil fuel burner who has received a permit to burn used oil or used oil  
3 fuel under section 49-426 or 49-480.

4           ~~48.~~ 47. Sales of materials that are purchased by or for publicly  
5 funded libraries, including school district libraries, charter school  
6 libraries, community college libraries, state university libraries or  
7 federal, state, county or municipal libraries for use by the public as  
8 follows:

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

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

11           ~~49.~~ 48. Tangible personal property sold to a commercial airline and  
12 consisting of food, beverages and condiments and accessories used for serving  
13 the food and beverages, if those items are to be provided without additional  
14 charge to passengers for consumption in flight. For the purposes of this  
15 paragraph, "commercial airline" means a person holding a federal certificate  
16 of public convenience and necessity or foreign air carrier permit for air  
17 transportation to transport persons, property or United States mail in  
18 intrastate, interstate or foreign commerce.

19           ~~50.~~ 49. Sales of alternative fuel vehicles if the vehicle was  
20 manufactured as a diesel fuel vehicle and converted to operate on alternative  
21 fuel and equipment that is installed in a conventional diesel fuel motor  
22 vehicle to convert the vehicle to operate on an alternative fuel, as defined  
23 in section 1-215.

24           ~~51.~~ 50. Sales of any spirituous, vinous or malt liquor by a person  
25 that is licensed in this state as a wholesaler by the department of liquor  
26 licenses and control pursuant to title 4, chapter 2, article 1.

27           ~~52.~~ 51. Sales of tangible personal property to be incorporated or  
28 installed as part of environmental response or remediation activities under  
29 section 42-5075, subsection B, paragraph 6.

30           ~~53.~~ 52. Sales of tangible personal property by a nonprofit  
31 organization that is exempt from taxation under section 501(c)(6) of the  
32 internal revenue code if the organization produces, organizes or promotes

1 cultural or civic related festivals or events and no part of the  
2 organization's net earnings inures to the benefit of any private shareholder  
3 or individual.

4 ~~54.~~ 53. Through August 31, 2014, sales of Arizona centennial  
5 medallions by the historical advisory commission.

6 ~~55.~~ 54. Application services that are designed to assess or test  
7 student learning or to promote curriculum design or enhancement purchased by  
8 or for any school district, charter school, community college or state  
9 university. For the purposes of this paragraph:

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

12 (b) "Curriculum design or enhancement" means planning, implementing or  
13 reporting on courses of study, lessons, assignments or other learning  
14 activities.

15 ~~56.~~ 55. Sales of motor vehicle fuel and use fuel to a qualified  
16 business under section 41-1516 for off-road use in harvesting, processing or  
17 transporting qualifying forest products removed from qualifying projects as  
18 defined in section 41-1516.

19 ~~57.~~ 56. Sales of repair parts installed in equipment used directly by  
20 a qualified business under section 41-1516 in harvesting, processing or  
21 transporting qualifying forest products removed from qualifying projects as  
22 defined in section 41-1516.

23 ~~58.~~ 57. Sales or other transfers of renewable energy credits or any  
24 other unit created to track energy derived from renewable energy resources.  
25 For the purposes of this paragraph, "renewable energy credit" means a unit  
26 created administratively by the corporation commission or governing body of a  
27 public power utility to track kilowatt hours of electricity derived from a  
28 renewable energy resource or the kilowatt hour equivalent of conventional  
29 energy resources displaced by distributed renewable energy resources.

30 ~~59.~~ 58. Computer data center equipment purchased by the owner,  
31 operator or qualified colocation tenant of the computer data center or an  
32 authorized agent of the owner, operator or qualified colocation tenant during

1 the qualification period for use in a computer data center that is certified  
2 by the Arizona commerce authority under section 41-1519. To qualify for this  
3 deduction, at the time of purchase, the owner, operator or qualified  
4 colocation tenant must present to the retailer its certificate that is issued  
5 pursuant to section 41-1519 and that establishes its qualification for the  
6 deduction. For the purposes of this paragraph, "computer data center",  
7 "computer data center equipment", "qualification period" and "qualified  
8 colocation tenant" have the same meanings prescribed in section 41-1519.

9 ~~60-~~ 59. Orthodontic devices dispensed by a dental professional who is  
10 licensed under title 32, chapter 11 to a patient as part of the practice of  
11 dentistry.

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

1 fiber, coaxial cable and other transmission media ~~which~~ THAT are components  
2 of carrier systems.

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

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

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

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

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

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

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

30 8. Machinery, tools, equipment and related supplies used or consumed  
31 directly in repairing, remodeling or maintaining aircraft, aircraft engines

1 or aircraft component parts ~~by or on behalf of a certificated or licensed~~  
2 ~~carrier of persons or property.~~

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

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

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

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

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

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

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

29 14. Machinery or equipment used in research and development. For the  
30 purposes of this paragraph, "research and development" means basic and  
31 applied research in the sciences and engineering, and designing, developing  
32 or testing prototypes, processes or new products, including research and

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

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

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

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

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

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

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

30 16. Clean rooms that are used for manufacturing, processing,  
31 fabrication or research and development, as defined in paragraph 14 of this  
32 subsection, of semiconductor products. For the purposes of this paragraph,

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

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

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

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

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

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

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

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

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

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

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

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

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

27           2. Janitorial equipment and hand tools.

28           3. Office equipment, furniture and supplies.

29           4. Tangible personal property used in selling or distributing  
30 activities, other than the telecommunications transmissions described in  
31 subsection B, paragraph 15 of this section.

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

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

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

8           8. MACHINERY AND EQUIPMENT OR OTHER TANGIBLE PERSONAL PROPERTY USED BY  
9 A CONTRACTOR IN THE PERFORMANCE OF A CONTRACT.

10           D. In addition to the deductions from the tax base prescribed by  
11 subsection A of this section, there shall be deducted from the tax base the  
12 gross proceeds of sales or gross income derived from sales of machinery,  
13 equipment, materials and other tangible personal property used directly and  
14 predominantly to construct a qualified environmental technology  
15 manufacturing, producing or processing facility as described in section  
16 41-1514.02. This subsection applies for ten full consecutive calendar or  
17 fiscal years after the start of initial construction.

18           E. In computing the tax base, gross proceeds of sales or gross income  
19 from retail sales of heavy trucks and trailers does not include any amount  
20 attributable to federal excise taxes imposed by 26 United States Code section  
21 4051.

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

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

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

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

- 15           1. Transporting classification.
- 16           2. Utilities classification.
- 17           3. Telecommunications classification.
- 18           4. Pipeline classification.
- 19           5. Private car line classification.
- 20           6. Publication classification.
- 21           7. Job printing classification.
- 22           8. Prime contracting classification.
- 23           ~~9. Owner builder sales classification.~~
- 24           ~~10.~~ 9. Restaurant classification.

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

- 27           1. Sales made directly to the United States government or its  
28 departments or agencies by a manufacturer, modifier, assembler or repairer.
- 29           2. Sales made directly to a manufacturer, modifier, assembler or  
30 repairer if such sales are of any ingredient or component part of products  
31 sold directly to the United States government or its departments or agencies  
32 by the manufacturer, modifier, assembler or repairer.

1           3. Overhead materials or other tangible personal property that is used  
2 in performing a contract between the United States government and a  
3 manufacturer, modifier, assembler or repairer, including property used in  
4 performing a subcontract with a government contractor who is a manufacturer,  
5 modifier, assembler or repairer, to which title passes to the government  
6 under the terms of the contract or subcontract.

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

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

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

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

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

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

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

31           O. In computing the tax base in the case of the sale or transfer of  
32 wireless telecommunications equipment as an inducement to a customer to enter

1 into or continue a contract for telecommunications services that are taxable  
2 under section 42-5064, gross proceeds of sales or gross income does not  
3 include any sales commissions or other compensation received by the retailer  
4 as a result of the customer entering into or continuing a contract for the  
5 telecommunications services.

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

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

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

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

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

23 S. If a seller is entitled to a deduction pursuant to subsection B,  
24 paragraph 15, subdivision (b) of this section, the department may require the  
25 purchaser to establish that the requirements of subsection B, paragraph 15,  
26 subdivision (b) of this section have been satisfied. If the purchaser cannot  
27 establish that the requirements of subsection B, paragraph 15, subdivision  
28 (b) of this section have been satisfied, the purchaser is liable in an amount  
29 equal to any tax, penalty and interest which the seller would have been  
30 required to pay under article 1 of this chapter if the seller had not made a  
31 deduction pursuant to subsection B, paragraph 15, subdivision (b) of this  
32 section. Payment of the amount under this subsection exempts the purchaser

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

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

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

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

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

26 V. For the purposes of this section:

27 1. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

31 6. "Subcontract" means an agreement between a contractor and any  
32 person who is not an employee of the contractor for furnishing of supplies or

1 services that, in whole or in part, are necessary to the performance of one  
2 or more government contracts, or under which any portion of the contractor's  
3 obligation under one or more government contracts is performed, undertaken or  
4 assumed and that includes provisions causing title to overhead materials or  
5 other tangible personal property used in the performance of the subcontract  
6 to pass to the government or that includes provisions incorporating such  
7 title passing clauses in a government contract into the subcontract. FOR THE  
8 PURPOSES OF THIS PARAGRAPH, "CONTRACTOR" HAS ITS ORDINARY AND COMMON MEANING  
9 AND DOES NOT HAVE THE MEANING PRESCRIBED BY SECTION 42-5001.

10 Sec. 11. Repeal

11 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2013,  
12 chapter 255, section 13, is repealed.

13 Sec. 12. Section 42-5062, Arizona Revised Statutes, is amended to  
14 read:

15 42-5062. Transporting classification

16 A. The transporting classification is comprised of the business of  
17 transporting for hire persons, freight or property by motor vehicle,  
18 railroads or aircraft from one point to another point in this state. The  
19 transporting classification does not include:

20 1. Transporting for hire persons, freight or property by motor  
21 carriers subject to a fee prescribed in title 28, chapter 16, article 4 or by  
22 light motor vehicles subject to a fee under title 28, chapter 15, article 4.

23 2. The business of transporting for hire persons traveling in air  
24 commerce by aircraft ~~if taxation of the business is preempted by federal law.~~

25 3. Ambulances or ambulance services provided under title 48 or  
26 certified pursuant to title 36, chapter 21.1 or provided by a city or town in  
27 a county with a population of less than one hundred fifty thousand persons ~~as~~  
28 ~~determined in the most recent United States decennial census.~~

29 4. Public transportation program services for the dial-a-ride programs  
30 and special needs transportation services.

31 5. Transporting freight or property for hire by a railroad operating  
32 exclusively in this state if the transportation comprises a portion of a

1 single shipment of freight or property, involving more than one railroad,  
2 either from a point in this state to a point outside this state or from a  
3 point outside this state to a point in this state. For the purposes of this  
4 paragraph, "a single shipment" means the transportation that begins at the  
5 point at which one of the railroads first takes possession of the freight or  
6 property and continues until the point at which one of the railroads  
7 relinquishes possession of the freight or property to a party other than one  
8 of the railroads.

9 6. Arranging transportation as a convenience or service to a person's  
10 customers if that person is not otherwise engaged in the business of  
11 transporting persons, freight or property for hire. This exception does not  
12 apply to businesses that dispatch vehicles pursuant to customer orders and  
13 send the billings and receive the payments associated with that activity,  
14 including when the transportation is performed by third party independent  
15 contractors. For the purposes of this paragraph, "arranging" includes  
16 billing for or collecting transportation charges from a person's customers on  
17 behalf of the persons providing the transportation.

18 B. The tax base for the transporting classification is the gross  
19 proceeds of sales or gross income derived from the business, except that the  
20 following shall be deducted from the tax base:

21 1. The gross proceeds of sales or gross income derived from  
22 transporting for hire persons, freight or property by a railroad pursuant to  
23 a contract with another railroad that is also considered to be engaged in the  
24 businesses of transporting persons, freight or property for hire if the other  
25 railroad is liable for the tax on gross proceeds of sales or gross income  
26 attributable to the transportation.

27 2. The gross proceeds of sales or gross income derived from business  
28 activity that is properly included in any other business classification under  
29 this article and that is taxable to the person engaged in that  
30 classification, but the gross proceeds of sales or gross income to be  
31 deducted shall not exceed the consideration paid to the person conducting the  
32 activity.

1           3. The gross proceeds of sales or gross income derived from a business  
2 activity that is arranged by the person who is subject to tax under this  
3 section and that is not taxable to the person conducting the activity due to  
4 an exclusion, exemption or deduction under this section or section 42-5073,  
5 but the gross proceeds of sales or gross income to be deducted shall not  
6 exceed the consideration paid to the person conducting the activity.

7           4. The gross proceeds of sales or gross income derived from business  
8 activity that is arranged by a person who is subject to tax under this  
9 section and that is taxable to another person under this section who conducts  
10 the activity, but the gross proceeds of sales or gross income to be deducted  
11 shall not exceed the consideration paid to the person conducting the  
12 activity.

13           5. The gross proceeds of sales or gross income derived from  
14 transporting fertilizer by a railroad from a point in this state to another  
15 point in this state.

16           Sec. 13. Section 42-5159, Arizona Revised Statutes, as amended by Laws  
17 2013, first special session, chapter 9, section 7, is amended to read:

18           42-5159. Exemptions

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

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

25           2. Tangible personal property the sale or use of which has already  
26 been subjected to an excise tax at a rate equal to or exceeding the tax  
27 imposed by this article under the laws of another state of the United States.  
28 If the excise tax imposed by the other state is at a rate less than the tax  
29 imposed by this article, the tax imposed by this article is reduced by the  
30 amount of the tax already imposed by the other state.

31           3. Tangible personal property, the storage, use or consumption of  
32 which the constitution or laws of the United States prohibit this state from

1 taxing or to the extent that the rate or imposition of tax is  
2 unconstitutional under the laws of the United States.

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

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

15 6. Tangible personal property brought into this state by an individual  
16 who was a nonresident at the time the property was purchased for storage, use  
17 or consumption by the individual if the first actual use or consumption of  
18 the property was outside this state, unless the property is used in  
19 conducting a business in this state.

20 7. Purchases of implants used as growth promotants and injectable  
21 medicines, not already exempt under paragraph 16 of this subsection, for  
22 livestock and poultry owned by, or in possession of, persons who are engaged  
23 in 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 8. Livestock, poultry, supplies, feed, salts, vitamins and other  
27 additives for use or consumption in the businesses of farming, ranching and  
28 feeding livestock or poultry, not including fertilizers, herbicides and  
29 insecticides. For the purposes of this paragraph, "poultry" includes  
30 ratites.

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

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

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

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

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

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

17           13. Tangible personal property purchased by:

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

21           (b) A hospital operated by this state or a political subdivision of  
22 this state.

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

28           (d) 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           (e) A qualifying health care organization as defined in section  
32 42-5001 if the organization is dedicated to providing educational,

1 therapeutic, rehabilitative and family medical education training for blind,  
2 visually impaired and multihandicapped children from the time of birth to age  
3 twenty-one.

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

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

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

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

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

22 (i) A qualifying community health center as defined in section  
23 42-5001.

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

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

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

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

14           15. Tangible personal property sold by:

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

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

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

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

31           17. Prosthetic appliances, as defined in section 23-501, prescribed or  
32 recommended by a person who is licensed, registered or otherwise

1 professionally credentialed as a physician, dentist, podiatrist,  
2 chiropractor, naturopath, homeopath, nurse or optometrist.

3 18. Prescription eyeglasses and contact lenses.

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

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

6 21. Durable medical equipment ~~which~~ THAT has a centers for medicare and  
7 medicaid services common procedure code, is designated reimbursable by  
8 medicare, is prescribed by a person who is licensed under title 32, chapter  
9 7, 13, 17 or 29, can withstand repeated use, is primarily and customarily  
10 used to serve a medical purpose, is generally not useful to a person in the  
11 absence of illness or injury and is appropriate for use in the home.

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

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

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

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

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

30 27. Lottery tickets or shares purchased pursuant to title 5, chapter  
31 5.1, article 1.

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

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

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

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

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

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

23           (b) Public educational institutions.

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

27           33. Natural gas or liquefied petroleum gas used to propel a motor  
28 vehicle.

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

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

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

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

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

30           39. Overhead materials or other tangible personal property that is used  
31 in performing a contract between the United States government and a  
32 manufacturer, modifier, assembler or repairer, including property used in

1 performing a subcontract with a government contractor who is a manufacturer,  
2 modifier, assembler or repairer, to which title passes to the government  
3 under the terms of the contract or subcontract. For the purposes of this  
4 paragraph:

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

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

21 40. Through December 31, 1994, tangible personal property sold pursuant  
22 to a personal property liquidation transaction, as defined in section  
23 42-5061. From and after December 31, 1994, tangible personal property sold  
24 pursuant to a personal property liquidation transaction, as defined in  
25 section 42-5061, if the gross proceeds of the sales were included in the  
26 measure of the tax imposed by article 1 of this chapter or if the personal  
27 property liquidation was a casual activity or transaction.

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

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

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

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

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

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

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

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

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

30           48. Tangible personal property sold by a nonprofit organization that is  
31 exempt from taxation under section 501(c)(6) of the internal revenue code if  
32 the organization produces, organizes or promotes cultural or civic related

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

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

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

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

14 (b) "Curriculum design or enhancement" means planning, implementing or  
15 reporting on courses of study, lessons, assignments or other learning  
16 activities.

17 51. Motor vehicle fuel and use fuel to a qualified business under  
18 section 41-1516 for off-road use in harvesting, processing or transporting  
19 qualifying forest products removed from qualifying projects as defined in  
20 section 41-1516.

21 52. Repair parts installed in equipment used directly by a qualified  
22 business under section 41-1516 in harvesting, processing or transporting  
23 qualifying forest products removed from qualifying projects as defined in  
24 section 41-1516.

25 53. Renewable energy credits or any other unit created to track energy  
26 derived from renewable energy resources. For the purposes of this paragraph,  
27 "renewable energy credit" means a unit created administratively by the  
28 corporation commission or governing body of a public power entity to track  
29 kilowatt hours of electricity derived from a renewable energy resource or the  
30 kilowatt hour equivalent of conventional energy resources displaced by  
31 distributed renewable energy resources.

1           54. Computer data center equipment purchased by the owner, operator or  
2 qualified colocation tenant of the computer data center or an authorized  
3 agent of the owner, operator or qualified colocation tenant during the  
4 qualification period for use in a computer data center that is certified by  
5 the Arizona commerce authority under section 41-1519. To qualify for this  
6 deduction, at the time of purchase, the owner, operator or qualified  
7 colocation tenant must present to the retailer its certificate that is issued  
8 pursuant to section 41-1519 and that establishes its qualification for the  
9 deduction. For the purposes of this paragraph, "computer data center",  
10 "computer data center equipment", "qualification period" and "qualified  
11 colocation tenant" have the same meanings prescribed in section 41-1519.

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

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

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

28           3. Tangible personal property sold to persons engaged in business  
29 classified under the telecommunications classification under section 42-5064  
30 and consisting of central office switching equipment, switchboards, private  
31 branch exchange equipment, microwave radio equipment and carrier equipment

1 including optical fiber, coaxial cable and other transmission media ~~which~~  
2 THAT are components of carrier systems.

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

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

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

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

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

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

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

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

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

4           11. Buses or other urban mass transit vehicles ~~which~~ THAT are used  
5 directly to transport persons or property for hire or pursuant to a  
6 governmentally adopted and controlled urban mass transportation program and  
7 ~~which~~ THAT are sold to bus companies holding a federal certificate of  
8 convenience and necessity or operated by any city, town or other governmental  
9 entity or by any person contracting with such governmental entity as part of  
10 a governmentally adopted and controlled program to provide urban mass  
11 transportation.

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

13           13. New machinery and equipment consisting of tractors, tractor-drawn  
14 implements, self-powered implements, machinery and equipment necessary for  
15 extracting milk, and machinery and equipment necessary for cooling milk and  
16 livestock, and drip irrigation lines not already exempt under paragraph 6 of  
17 this subsection and that are used for commercial production of agricultural,  
18 horticultural, viticultural and floricultural crops and products in this  
19 state. For the purposes of this paragraph:

20           (a) "New machinery and equipment" means machinery or equipment ~~which~~  
21 THAT has never been sold at retail except pursuant to leases or rentals ~~which~~  
22 THAT do not total two years or more.

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

25           14. Machinery or equipment used in research and development. For the  
26 purposes of this paragraph, "research and development" means basic and  
27 applied research in the sciences and engineering, and designing, developing  
28 or testing prototypes, processes or new products, including research and  
29 development of computer software that is embedded in or an integral part of  
30 the prototype or new product or that is required for machinery or equipment  
31 otherwise exempt under this section to function effectively. Research and  
32 development do not include manufacturing quality control, routine consumer

1 product testing, market research, sales promotion, sales service, research in  
2 social sciences or psychology, computer software research that is not  
3 included in the definition of research and development, or other  
4 nontechnological activities or technical services.

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

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

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

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

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

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

26 16. Clean rooms that are used for manufacturing, processing,  
27 fabrication or research and development, as defined in paragraph 14 of this  
28 subsection, of semiconductor products. For the purposes of this paragraph,  
29 "clean room" means all property that comprises or creates an environment  
30 where humidity, temperature, particulate matter and contamination are  
31 precisely controlled within specified parameters, without regard to whether

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

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

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

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

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

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

30 20. Machinery or equipment that enables a television station to  
31 originate and broadcast or to receive and broadcast digital television  
32 signals and that was purchased to facilitate compliance with the

1 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States  
2 Code section 336) and the federal communications commission order issued  
3 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does  
4 not exempt any of the following:

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

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

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

12 21. Qualifying equipment that is purchased from and after June 30, 2004  
13 through June 30, 2024 by a qualified business under section 41-1516 for  
14 harvesting or processing qualifying forest products removed from qualifying  
15 projects as defined in section 41-1516. To qualify for this exemption, the  
16 qualified business must obtain and present its certification from the Arizona  
17 commerce authority at the time of purchase.

18 C. The exemptions provided by subsection B of this section do not  
19 include:

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

24 2. Janitorial equipment and hand tools.

25 3. Office equipment, furniture and supplies.

26 4. Tangible personal property used in selling or distributing  
27 activities, other than the telecommunications transmissions described in  
28 subsection B, paragraph 15 of this section.

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

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

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

4           8. MACHINERY AND EQUIPMENT OR TANGIBLE PERSONAL PROPERTY USED BY A  
5 CONTRACTOR IN THE PERFORMANCE OF A CONTRACT.

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

8           1. Revenues received from sales of ancillary services, electric  
9 distribution services, electric generation services, electric transmission  
10 services and other services related to providing electricity to a retail  
11 electric customer who is located outside this state for use outside this  
12 state if the electricity is delivered to a point of sale outside this state.

13           2. Revenues received from providing electricity, including ancillary  
14 services, electric distribution services, electric generation services,  
15 electric transmission services and other services related to providing  
16 electricity with respect to which the transaction privilege tax imposed under  
17 section 42-5063 has been paid.

18           E. The tax levied by this article does not apply to the purchase of  
19 solar energy devices from a retailer that is registered with the department  
20 as a solar energy retailer or a solar energy contractor.

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

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

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

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

2 1. "Aircraft" includes:

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

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

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

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

16 Sec. 14. Repeal

17 Section 42-5159, Arizona Revised Statutes, as amended by Laws 2013,  
18 chapter 255, section 17, is repealed.

19 Sec. 15. Effective date

20 This act is effective from and after December 31, 2014."

21 Amend title to conform

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