

State of Arizona
House of Representatives
Fifty-first Legislature
Second Regular Session
2014

HOUSE BILL 2285

AN ACT

AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 5, LAWS 2013, FIRST REGULAR SESSION, CHAPTER 120, SECTION 1 AND CHAPTER 233, SECTION 1; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 13; AMENDING SECTIONS 42-5072 AND 42-5151, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 7; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 17; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 8, LAWS 2013, FIRST REGULAR SESSION, CHAPTER 27, SECTION 2, CHAPTER 120, SECTION 2, CHAPTER 153, SECTION 2 AND CHAPTER 236, SECTION 6; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 20; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5061, Arizona Revised Statutes, as amended by
3 Laws 2013, first special session, chapter 9, section 5, Laws 2013, first
4 regular session, chapter 120, section 1 and chapter 233, section 1, is
5 amended to read:

6 42-5061. Retail classification; definitions

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

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

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

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

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

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

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

29 7. The sale of stocks and bonds.

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

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

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

37 11. Prescription eyeglasses or contact lenses.

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

39 13. Durable medical equipment ~~which~~ THAT has a centers for medicare and
40 medicaid services common procedure code, is designated reimbursable by
41 medicare, is prescribed by a person who is licensed under title 32, chapter
42 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and
43 customarily used to serve a medical purpose, is generally not useful to a
44 person in the absence of illness or injury and is appropriate for use in the
45 home.

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

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

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

11 17. Textbooks by any bookstore that are required by any state
12 university or community college.

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

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

22 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
23 article 1.

24 21. The sale of cash equivalents and the sale of precious metal bullion
25 and monetized bullion to the ultimate consumer, but the sale of coins or
26 other forms of money for manufacture into jewelry or works of art is subject
27 to the tax and the gross proceeds of sales or gross income derived from the
28 redemption of any cash equivalent by the holder as a means of payment for
29 goods or services that are taxable under this article is subject to the tax.
30 For the purposes of this paragraph:

31 (a) "Cash equivalents" means items or intangibles, whether or not
32 negotiable, that are sold to one or more persons, through which a value
33 denominated in money is purchased in advance and may be redeemed in full or
34 in part for tangible personal property, intangibles or services. Cash
35 equivalents include gift cards, stored value cards, gift certificates,
36 vouchers, traveler's checks, money orders or other instruments, orders or
37 electronic mechanisms, such as an electronic code, personal identification
38 number or digital payment mechanism, or any other prepaid intangible right to
39 acquire tangible personal property, intangibles or services in the future,
40 whether from the seller of the cash equivalent or from another person. Cash
41 equivalents do not include either of the following:

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

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

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

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

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

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

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

20 25. Tangible personal property sold to:

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

22 (b) A qualifying health care organization as defined in section
23 42-5001 if the tangible personal property is used by the organization solely
24 to provide health and medical related educational and charitable services.

25 (c) A qualifying health care organization as defined in section
26 42-5001 if the organization is dedicated to providing educational,
27 therapeutic, rehabilitative and family medical education training for blind,
28 visually impaired and multihandicapped children from the time of birth to age
29 twenty-one.

30 (d) A qualifying community health center as defined in section
31 42-5001.

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

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

43 26. Magazines or other periodicals or other publications by this state
44 to encourage tourist travel.

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

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

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

11 28. The sale of a motor vehicle to:

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

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

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

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

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

36 32. Sales of tangible personal property by a nonprofit organization
37 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),
38 501(c)(7) or 501(c)(8) of the internal revenue code if the organization
39 sponsors or operates a rodeo featuring primarily farm and ranch animals and
40 no part of the organization's net earnings inures to the benefit of any
41 private shareholder or individual.

42 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other
43 propagative material to persons who use those items to commercially produce
44 agricultural, horticultural, viticultural or floricultural crops in this
45 state.

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

9 36. Sales of natural gas or liquefied petroleum gas used to propel a
10 motor vehicle.

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

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

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

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

44 (a) "Personal property liquidation transaction" means a sale of
45 personal property made by a personal property liquidator acting solely on

1 behalf of the owner of the personal property sold at the dwelling of the
2 owner or on the death of any owner, on behalf of the surviving spouse, if
3 any, any devisee or heir or the personal representative of the estate of the
4 deceased, if one has been appointed.

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

7 41. Sales of food, drink and condiment for consumption within the
8 premises of any prison, jail or other institution under the jurisdiction of
9 the state department of corrections, the department of public safety, the
10 department of juvenile corrections or a county sheriff.

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

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

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

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

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

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

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

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

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

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

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

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

19 52. Sales of tangible personal property to be incorporated or installed
20 as part of environmental response or remediation activities under section
21 42-5075, subsection B, paragraph 6.

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

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

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

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

35 (b) "Curriculum design or enhancement" means planning, implementing or
36 reporting on courses of study, lessons, assignments or other learning
37 activities.

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

42 57. Sales of repair parts installed in equipment used directly by a
43 qualified business under section 41-1516 in harvesting, processing or
44 transporting qualifying forest products removed from qualifying projects as
45 defined in section 41-1516.

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

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

19 60. Orthodontic devices dispensed by a dental professional who is
20 licensed under title 32, chapter 11 to a patient as part of the practice of
21 dentistry.

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

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

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

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

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

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

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

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

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

20 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18 2. Janitorial equipment and hand tools.

19 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

- 33 1. Sales made directly to the United States government or its
34 departments or agencies by a manufacturer, modifier, assembler or repairer.
- 35 2. Sales made directly to a manufacturer, modifier, assembler or
36 repairer if such sales are of any ingredient or component part of products
37 sold directly to the United States government or its departments or agencies
38 by the manufacturer, modifier, assembler or repairer.
- 39 3. Overhead materials or other tangible personal property that is used
40 in performing a contract between the United States government and a
41 manufacturer, modifier, assembler or repairer, including property used in
42 performing a subcontract with a government contractor who is a manufacturer,
43 modifier, assembler or repairer, to which title passes to the government
44 under the terms of the contract or subcontract.

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

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

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

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

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

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

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

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

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

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

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

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

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

4 S. FOR THE PURPOSES OF THIS SECTION, THE TRANSFER OF TITLE OR
5 POSSESSION OF COAL FROM AN OWNER OR OPERATOR OF A POWER PLANT TO A PERSON IN
6 THE BUSINESS OF REFINING COAL IS NOT A SALE OF COAL IF BOTH OF THE FOLLOWING
7 APPLY:

8 1. THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
9 OF REFINING THE COAL.

10 2. THE TITLE OR POSSESSION OF THE COAL IS TRANSFERRED BACK TO THE
11 OWNER OR OPERATOR OF THE POWER PLANT AFTER COMPLETION OF THE COAL REFINING
12 PROCESS. FOR THE PURPOSES OF THIS PARAGRAPH, "COAL REFINING PROCESS"
13 MEANS THE APPLICATION OF A COAL ADDITIVE SYSTEM THAT AIDS IN THE REDUCTION OF
14 POWER PLANT EMISSIONS DURING THE COMBUSTION OF COAL AND THE TREATMENT OF FLUE
15 GAS.

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

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

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

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

39 ~~U.~~ V. In computing the tax base for the sale of a motor vehicle to a
40 nonresident of this state, if the purchaser's state of residence allows a
41 corresponding use tax exemption to the tax imposed by article 1 of this
42 chapter and the rate of the tax in the purchaser's state of residence is
43 lower than the rate prescribed in article 1 of this chapter or if the
44 purchaser's state of residence does not impose an excise tax, and the
45 nonresident has secured a special ninety day nonresident registration permit

1 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall
2 be deducted from the tax base a portion of the gross proceeds or gross income
3 from the sale so that the amount of transaction privilege tax that is paid in
4 this state is equal to the excise tax that is imposed by the purchaser's
5 state of residence on the nonexempt sale or use of the motor vehicle.

6 ~~V.~~ W. For the purposes of this section:

7 1. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

41 6. "Subcontract" means an agreement between a contractor and any
42 person who is not an employee of the contractor for furnishing of supplies or
43 services that, in whole or in part, are necessary to the performance of one
44 or more government contracts, or under which any portion of the contractor's
45 obligation under one or more government contracts is performed, undertaken or

1 assumed and that includes provisions causing title to overhead materials or
2 other tangible personal property used in the performance of the subcontract
3 to pass to the government or that includes provisions incorporating such
4 title passing clauses in a government contract into the subcontract.

5 Sec. 2. Section 42-5061, Arizona Revised Statutes, as amended by Laws
6 2013, chapter 255, section 13, is amended to read:

7 42-5061. Retail classification; definitions

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

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

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

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

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

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

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

30 7. The sale of stocks and bonds.

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

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

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

38 11. Prescription eyeglasses or contact lenses.

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

40 13. Durable medical equipment that has a centers for medicare and
41 medicaid services common procedure code, is designated reimbursable by
42 medicare, is prescribed by a person who is licensed under title 32, chapter
43 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and
44 customarily used to serve a medical purpose, is generally not useful to a

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

3 14. Sales of motor vehicles to nonresidents of this state for use
4 outside this state if the motor vehicle dealer ships or delivers the motor
5 vehicle to a destination out of this state.

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

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

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

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

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

24 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
25 article 1.

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

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

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

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

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

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

4 25. Tangible personal property sold to:

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

6 (b) A qualifying health care organization as defined in section
7 42-5001 if the tangible personal property is used by the organization solely
8 to provide health and medical related educational and charitable services.

9 (c) A qualifying health care organization as defined in section
10 42-5001 if the organization is dedicated to providing educational,
11 therapeutic, rehabilitative and family medical education training for blind,
12 visually impaired and multihandicapped children from the time of birth to age
13 twenty-one.

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

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

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

27 26. Magazines or other periodicals or other publications by this state
28 to encourage tourist travel.

29 27. Tangible personal property sold to a person that is subject to tax
30 under this article by reason of being engaged in business classified under
31 the prime contracting classification under section 42-5075 or to a
32 subcontractor working under the control of a prime contractor that is subject
33 to tax under article 1 of this chapter, if the property so sold is any of the
34 following:

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

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

39 28. The sale of a motor vehicle to:

40 (a) A nonresident of this state if the purchaser's state of residence
41 does not allow a corresponding use tax exemption to the tax imposed by
42 article 1 of this chapter and if the nonresident has secured a special ninety
43 day nonresident registration permit for the vehicle as prescribed by sections
44 28-2154 and 28-2154.01.

- 1 (b) An enrolled member of an Indian tribe who resides on the Indian
2 reservation established for that tribe.
- 3 29. Tangible personal property purchased in this state by a nonprofit
4 charitable organization that has qualified under section 501(c)(3) of the
5 United States internal revenue code and that engages in and uses such
6 property exclusively in programs for mentally or physically handicapped
7 persons if the programs are exclusively for training, job placement,
8 rehabilitation or testing.
- 9 30. Sales of tangible personal property by a nonprofit organization
10 that is exempt from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6)
11 of the internal revenue code if the organization is associated with a major
12 league baseball team or a national touring professional golfing association
13 and no part of the organization's net earnings inures to the benefit of any
14 private shareholder or individual.
- 15 31. Sales of commodities, as defined by title 7 United States Code
16 section 2, that are consigned for resale in a warehouse in this state in or
17 from which the commodity is deliverable on a contract for future delivery
18 subject to the rules of a commodity market regulated by the United States
19 commodity futures trading commission.
- 20 32. Sales of tangible personal property by a nonprofit organization
21 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),
22 501(c)(7) or 501(c)(8) of the internal revenue code if the organization
23 sponsors or operates a rodeo featuring primarily farm and ranch animals and
24 no part of the organization's net earnings inures to the benefit of any
25 private shareholder or individual.
- 26 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other
27 propagative material to persons who use those items to commercially produce
28 agricultural, horticultural, viticultural or floricultural crops in this
29 state.
- 30 34. Machinery, equipment, technology or related supplies that are only
31 useful to assist a person who is physically disabled as defined in section
32 46-191, has a developmental disability as defined in section 36-551 or has a
33 head injury as defined in section 41-3201 to be more independent and
34 functional.
- 35 35. Sales of natural gas or liquefied petroleum gas used to propel a
36 motor vehicle.
- 37 36. Paper machine clothing, such as forming fabrics and dryer felts,
38 sold to a paper manufacturer and directly used or consumed in paper
39 manufacturing.
- 40 37. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
41 sold to a qualified environmental technology manufacturer, producer or
42 processor as defined in section 41-1514.02 and directly used or consumed in
43 the generation or provision of on-site power or energy solely for
44 environmental technology manufacturing, producing or processing or
45 environmental protection. This paragraph shall apply for twenty full

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

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

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

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

33 40. Sales of food, drink and condiment for consumption within the
34 premises of any prison, jail or other institution under the jurisdiction of
35 the state department of corrections, the department of public safety, the
36 department of juvenile corrections or a county sheriff.

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

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

1 43. Sales of implants used as growth promotants and injectable
2 medicines, not already exempt under paragraph 8 of this subsection, for
3 livestock or poultry owned by or in possession of persons who are engaged in
4 producing livestock, poultry, or livestock or poultry products or who are
5 engaged in feeding livestock or poultry commercially. For the purposes of
6 this paragraph, "poultry" includes ratites.

7 44. Sales of motor vehicles at auction to nonresidents of this state
8 for use outside this state if the vehicles are shipped or delivered out of
9 this state, regardless of where title to the motor vehicles passes or its
10 free on board point.

11 45. Tangible personal property sold to a person engaged in business and
12 subject to tax under the transient lodging classification if the tangible
13 personal property is a personal hygiene item or articles used by human beings
14 for food, drink or condiment, except alcoholic beverages, that are furnished
15 without additional charge to and intended to be consumed by the transient
16 during the transient's occupancy.

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

20 47. Sales of materials that are purchased by or for publicly funded
21 libraries including school district libraries, charter school libraries,
22 community college libraries, state university libraries or federal, state,
23 county or municipal libraries for use by the public as follows:

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

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

26 48. Tangible personal property sold to a commercial airline and
27 consisting of food, beverages and condiments and accessories used for serving
28 the food and beverages, if those items are to be provided without additional
29 charge to passengers for consumption in flight. For the purposes of this
30 paragraph, "commercial airline" means a person holding a federal certificate
31 of public convenience and necessity or foreign air carrier permit for air
32 transportation to transport persons, property or United States mail in
33 intrastate, interstate or foreign commerce.

34 49. Sales of alternative fuel vehicles if the vehicle was manufactured
35 as a diesel fuel vehicle and converted to operate on alternative fuel and
36 equipment that is installed in a conventional diesel fuel motor vehicle to
37 convert the vehicle to operate on an alternative fuel, as defined in section
38 1-215.

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

42 51. Sales of tangible personal property to be incorporated or installed
43 as part of environmental response or remediation activities under section
44 42-5075, subsection B, paragraph 6.

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

6 53. Through August 31, 2014, sales of Arizona centennial medallions by
7 the historical advisory commission.

8 54. 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 55. Sales of motor vehicle fuel and use fuel to a qualified business
18 under section 41-1516 for off-road use in harvesting, processing or
19 transporting qualifying forest products removed from qualifying projects as
20 defined in section 41-1516.

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

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

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

36 1. Machinery, or equipment, used directly in manufacturing,
37 processing, fabricating, job printing, refining or metallurgical operations.
38 The terms "manufacturing", "processing", "fabricating", "job printing",
39 "refining" and "metallurgical" as used in this paragraph refer to and include
40 those operations commonly understood within their ordinary meaning.
41 "Metallurgical operations" includes leaching, milling, precipitating,
42 smelting and refining.

43 2. Mining machinery, or equipment, used directly in the process of
44 extracting ores or minerals from the earth for commercial purposes, including
45 equipment required to prepare the materials for extraction and handling,

1 loading or transporting such extracted material to the surface. "Mining"
2 includes underground, surface and open pit operations for extracting ores and
3 minerals.

4 3. Tangible personal property sold to persons engaged in business
5 classified under the telecommunications classification and consisting of
6 central office switching equipment, switchboards, private branch exchange
7 equipment, microwave radio equipment and carrier equipment including optical
8 fiber, coaxial cable and other transmission media that are components of
9 carrier systems.

10 4. Machinery, equipment or transmission lines used directly in
11 producing or transmitting electrical power, but not including distribution.
12 Transformers and control equipment used at transmission substation sites
13 constitute equipment used in producing or transmitting electrical power.

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

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

21 7. Aircraft, navigational and communication instruments and other
22 accessories and related equipment sold to:

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

29 (b) Any foreign government.

30 (c) Persons who are not residents of this state and who will not use
31 such property in this state other than in removing such property from this
32 state. This subdivision also applies to corporations that are not
33 incorporated in this state, regardless of maintaining a place of business in
34 this state, if the principal corporate office is located outside this state
35 and the property will not be used in this state other than in removing the
36 property from this state.

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

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

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

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

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

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

16 (a) "New machinery and equipment" means machinery and equipment that
17 have never been sold at retail except pursuant to leases or rentals that do
18 not total two years or more.

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

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

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

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

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

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

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

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

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

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

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

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

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

40 19. Machinery and equipment that are sold to a person engaged in the
41 commercial production of livestock, livestock products or agricultural,
42 horticultural, viticultural or floricultural crops or products in this state
43 and that are used directly and primarily to prevent, monitor, control or
44 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.

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

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

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

39 8. Machinery and equipment or other tangible personal property used by
40 a contractor in the performance of a contract.

41 D. In addition to the deductions from the tax base prescribed by
42 subsection A of this section, there shall be deducted from the tax base the
43 gross proceeds of sales or gross income derived from sales of machinery,
44 equipment, materials and other tangible personal property used directly and
45 predominantly to construct a qualified environmental technology

1 manufacturing, producing or processing facility as described in section
2 41-1514.02. This subsection applies for ten full consecutive calendar or
3 fiscal years after the start of initial construction.

4 E. In computing the tax base, gross proceeds of sales or gross income
5 from retail sales of heavy trucks and trailers does not include any amount
6 attributable to federal excise taxes imposed by 26 United States Code section
7 4051.

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

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

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

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

- 32 1. Transporting classification.
- 33 2. Utilities classification.
- 34 3. Telecommunications classification.
- 35 4. Pipeline classification.
- 36 5. Private car line classification.
- 37 6. Publication classification.
- 38 7. Job printing classification.
- 39 8. Prime contracting classification.
- 40 9. Restaurant classification.

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

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

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

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

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

16 K. There shall be deducted from the tax base fifty per cent of the
17 gross proceeds or gross income from any sale of tangible personal property
18 made directly to the United States government or its departments or agencies
19 that is not deducted under subsection J of this section.

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

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

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

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

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

35 O. In computing the tax base in the case of the sale or transfer of
36 wireless telecommunications equipment as an inducement to a customer to enter
37 into or continue a contract for telecommunications services that are taxable
38 under section 42-5064, gross proceeds of sales or gross income does not
39 include any sales commissions or other compensation received by the retailer
40 as a result of the customer entering into or continuing a contract for the
41 telecommunications services.

42 P. For the purposes of this section, a sale of wireless
43 telecommunications equipment to a person who holds the equipment for sale or
44 transfer to a customer as an inducement to enter into or continue a contract

1 for telecommunications services that are taxable under section 42-5064 is
2 considered to be a sale for resale in the regular course of business.

3 Q. Retail sales of prepaid calling cards or prepaid authorization
4 numbers for telecommunications services, including sales of reauthorization
5 of a prepaid card or authorization number, are subject to tax under this
6 section.

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

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

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

15 S. FOR THE PURPOSES OF THIS SECTION, THE TRANSFER OF TITLE OR
16 POSSESSION OF COAL FROM AN OWNER OR OPERATOR OF A POWER PLANT TO A PERSON IN
17 THE BUSINESS OF REFINING COAL IS NOT A SALE OF COAL IF BOTH OF THE FOLLOWING
18 APPLY:

19 1. THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
20 OF REFINING THE COAL.

21 2. THE TITLE OR POSSESSION OF THE COAL IS TRANSFERRED BACK TO THE
22 OWNER OR OPERATOR OF THE POWER PLANT AFTER COMPLETION OF THE COAL REFINING
23 PROCESS. FOR THE PURPOSES OF THIS PARAGRAPH, "COAL REFINING PROCESS" MEANS
24 THE APPLICATION OF A COAL ADDITIVE SYSTEM THAT AIDS IN THE REDUCTION OF POWER
25 PLANT EMISSIONS DURING THE COMBUSTION OF COAL AND THE TREATMENT OF FLUE GAS.

26 ~~S.~~ T. If a seller is entitled to a deduction pursuant to subsection
27 B, paragraph 15, subdivision (b) of this section, the department may require
28 the purchaser to establish that the requirements of subsection B, paragraph
29 15, subdivision (b) of this section have been satisfied. If the purchaser
30 cannot establish that the requirements of subsection B, paragraph 15,
31 subdivision (b) of this section have been satisfied, the purchaser is liable
32 in an amount equal to any tax, penalty and interest which the seller would
33 have been required to pay under article 1 of this chapter if the seller had
34 not made a deduction pursuant to subsection B, paragraph 15, subdivision (b)
35 of this section. Payment of the amount under this subsection exempts the
36 purchaser from liability for any tax imposed under article 4 of this chapter
37 and related to the tangible personal property purchased. The amount shall be
38 treated as transaction privilege tax to the purchaser and as tax revenues
39 collected from the seller to designate the distribution base pursuant to
40 section 42-5029.

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

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

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

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

16 ~~V.~~ W. For the purposes of this section:

17 1. "Aircraft" includes:

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

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

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

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

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

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

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

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

42 4. "Overhead materials" means tangible personal property, the gross
43 proceeds of sales or gross income derived from that would otherwise be
44 included in the retail classification, and that are used or consumed in the
45 performance of a contract, the cost of which is charged to an overhead

1 expense account and allocated to various contracts based on generally
2 accepted accounting principles and consistent with government contract
3 accounting standards.

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

6 6. "Subcontract" means an agreement between a contractor and any
7 person who is not an employee of the contractor for furnishing of supplies or
8 services that, in whole or in part, are necessary to the performance of one
9 or more government contracts, or under which any portion of the contractor's
10 obligation under one or more government contracts is performed, undertaken or
11 assumed and that includes provisions causing title to overhead materials or
12 other tangible personal property used in the performance of the subcontract
13 to pass to the government or that includes provisions incorporating such
14 title passing clauses in a government contract into the subcontract. For the
15 purposes of this paragraph, "contractor" has its ordinary and common meaning
16 ~~and does not have the meaning prescribed by section 42-5001.~~

17 Sec. 3. Section 42-5072, Arizona Revised Statutes, is amended to read:
18 42-5072. Mining classification; definition

19 A. The mining classification is comprised of the business of mining,
20 quarrying or producing for sale, profit or commercial use any
21 nonmetalliferous mineral product that has been mined, quarried or otherwise
22 extracted within the boundaries of this state described in article I, section
23 1, Constitution of Arizona.

24 B. The tax base for the mining classification is the gross proceeds of
25 sales or gross income derived from the business. The gross proceeds of sales
26 or gross income derived from sales described under section 42-5061,
27 subsection A, paragraph 27 and subsection J, paragraph 2 shall be deducted
28 from the tax base.

29 C. The tax base includes the value of the entire product mined,
30 quarried or produced for sale, profit or commercial use in this state,
31 regardless of the place of sale of the product or of the fact that deliveries
32 may be made to points without this state. If, however, the sale price of the
33 product includes freight, the sale price shall be reduced by the actual
34 freight paid by any person from the place of production to the place of
35 delivery.

36 D. In the case of a person engaged in business classified under the
37 mining classification all or part of whose income is derived from service or
38 manufacturing charges instead of from sales of the products manufactured or
39 handled, the tax base includes the gross income of the person derived from
40 the service or manufacturing charge.

41 E. If a person engaging in business classified under the mining
42 classification ships or transports all or part of a product out of this state
43 without making sale of the product or ships his product outside of this state
44 in an unfinished condition, the value of the product or article in the
45 condition or form in which it existed when transported out of this state and

1 before it enters interstate commerce is included in the tax base, and the
2 department shall prescribe equitable and uniform rules for ascertaining that
3 value. In determining the tax base, if the product or any part of the
4 product has been processed in this state and the proceeds of such processing
5 have been included in the tax base of the processor under this chapter, the
6 person may deduct from the value of the product when transported out of this
7 state the cost of such processing.

8 F. A person who conducts a business classified under the mining
9 classification may be deemed also to be engaged in business classified under
10 the retail classification to the extent the person's activities comprise
11 business under the retail classification if the tax is paid at the rate
12 imposed on the retail classification by section 42-5010. If the transaction
13 is not subject to taxation under the retail classification, the transaction
14 shall be included in the tax base under this section, **EXCEPT FOR THE TRANSFER**
15 **OF TITLE OR POSSESSION OF COAL BACK AND FORTH BETWEEN AN OWNER OR OPERATOR OF**
16 **A POWER PLANT AND A PERSON WHO IS RESPONSIBLE FOR REFINING COAL IF BOTH OF**
17 **THE FOLLOWING APPLY:**

18 1. THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
19 OF REFINING THE COAL.

20 2. THE TITLE OR POSSESSION OF THE COAL IS TRANSFERRED BACK TO THE
21 OWNER OR OPERATOR OF THE POWER PLANT AFTER COMPLETION OF THE COAL REFINING
22 PROCESS. FOR THE PURPOSES OF THIS PARAGRAPH, "COAL REFINING PROCESS" MEANS
23 THE APPLICATION OF A COAL ADDITIVE SYSTEM THAT AIDS THE REDUCTION OF POWER
24 PLANT EMISSIONS DURING THE COMBUSTION OF COAL AND THE TREATMENT OF FLUE GAS.

25 G. For the purposes of this section, "nonmetalliferous mineral
26 product" means oil, natural gas, limestone, sand, gravel or any other
27 nonmetalliferous mineral product, compound or combination of nonmetalliferous
28 mineral products.

29 Sec. 4. Section 42-5151, Arizona Revised Statutes, is amended to read:
30 42-5151. Definitions

31 In this article, unless the context otherwise requires:

32 1. "Ancillary services" means those services so designated in federal
33 energy regulatory commission order 888 adopted in 1996 that include the
34 services necessary to support the transmission of electricity from resources
35 to loads while maintaining reliable operation of the transmission system
36 according to good utility practice.

37 2. "Electric distribution service" means distributing electricity to
38 retail electric customers through the use of electric distribution
39 facilities.

40 3. "Electric generation service" means providing electricity for sale
41 to retail electric customers but excluding electric distribution or
42 transmission services.

43 4. "Electric transmission service" means transmitting electricity to
44 retail electric customers or to electric distribution facilities so

1 classified by the federal energy regulatory commission or, to the extent
2 permitted by law, so classified by the Arizona corporation commission.

3 5. "Electric utility services" means the business of providing
4 electric ancillary services, electric distribution services, electric
5 generation services, electric transmission services and other services
6 related to providing electricity.

7 6. "Electricity" means electric energy, electric capacity or electric
8 capacity and energy.

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

12 8. "Natural gas" means natural or artificial gas, and includes methane
13 and propane gas, the natural gas commodity, natural gas pipeline capacity or
14 natural gas commodity and pipeline capacity.

15 9. "Natural gas utility services" means the business of selling
16 natural gas or providing natural gas transportation services or other
17 services related to providing natural gas.

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

21 11. "Other services" includes metering, meter reading services, billing
22 and collecting services.

23 12. "Person" means an individual, firm, partnership, joint venture,
24 association, corporation, estate, trust, receiver or syndicate, this state or
25 a county, city, municipality, district or other political subdivision or
26 agency thereof.

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

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

38 (a) Discounts allowed and taken.

39 (b) Charges for labor or services in installing, remodeling or
40 repairing.

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

1 (d) Amounts attributable to federal excise taxes imposed by 26 United
2 States Code section 4001, 4051 or 4081 on sales of heavy trucks and trailers
3 and automobiles or on sales of use fuel, as defined in section 28-5601.

4 (e) The value of merchandise that is traded in on the purchase of new
5 or pre-owned merchandise when the trade-in allowance is deducted from the
6 sales price of the new or pre-owned merchandise before the completion of the
7 sale.

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

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

14 17. "Retailer" includes:

15 (a) Every person engaged in the business of making sales of tangible
16 personal property for storage, use or other consumption or in the business of
17 making sales at auction of tangible personal property owned by that person or
18 others for storage, use or other consumption. If in the opinion of the
19 department it is necessary for the efficient administration of this article
20 to regard any salesmen, representatives, peddlers or canvassers as the agents
21 of the dealers, distributors, supervisors or employers under whom they
22 operate or from whom they obtain the tangible personal property sold by them,
23 regardless of whether they are making sales on their own behalf or on behalf
24 of such dealers, distributors, supervisors or employers, the department may
25 so regard them and may regard the dealers, distributors, supervisors or
26 employers as retailers for purposes of this article.

27 (b) A person who solicits orders for tangible personal property by
28 mail if the solicitations are substantial and recurring or if the retailer
29 benefits from any banking, financing, debt collection, telecommunication,
30 television shopping system, cable, optic, microwave or other communication
31 system or marketing activities occurring in this state or benefits from the
32 location in this state of authorized installation, servicing or repair
33 facilities.

34 18. "Solar daylighting" means a device that is specifically designed to
35 capture and redirect the visible portion of the solar beam, while controlling
36 the infrared portion, for use in illuminating interior building spaces in
37 lieu of artificial lighting.

38 19. "Solar energy device" means a system or series of mechanisms
39 designed primarily to provide heating, to provide cooling, to produce
40 electrical power, to produce mechanical power, to provide solar daylighting
41 or to provide any combination of the foregoing by means of collecting and
42 transferring solar generated energy into such uses by either active or
43 passive means, including wind generator systems that produce electricity.
44 Solar energy systems may also have the capability of storing solar energy for
45 future use. Passive systems shall clearly be designed as a solar energy

1 device, such as a trombe wall, and not merely as a part of a normal
2 structure, such as a window.

3 20. "Storage" means keeping or retaining tangible personal property
4 purchased from a retailer for any purpose except sale in the regular course
5 of business or subsequent use solely outside this state. FOR THE PURPOSES OF
6 THIS PARAGRAPH, SALE IN THE REGULAR COURSE OF BUSINESS DOES NOT INCLUDE THE
7 TRANSFER OF TITLE OR POSSESSION OF COAL BACK AND FORTH BETWEEN AN OWNER OR
8 OPERATOR OF A POWER PLANT AND A PERSON WHO IS RESPONSIBLE FOR REFINING COAL
9 IF BOTH OF THE FOLLOWING APPLY:

10 (a) THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
11 OF REFINING THE COAL.

12 (b) THE TITLE OR POSSESSION OF THE COAL IS TRANSFERRED BACK TO THE
13 OWNER OR OPERATOR OF THE POWER PLANT AFTER COMPLETION OF THE COAL REFINING
14 PROCESS. FOR THE PURPOSES OF THIS SUBDIVISION, "COAL REFINING PROCESS" MEANS
15 THE APPLICATION OF A COAL ADDITIVE SYSTEM THAT AIDS THE REDUCTION OF POWER
16 PLANT EMISSIONS DURING THE COMBUSTION OF COAL AND THE TREATMENT OF FLUE GAS.

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

21 22. "Use or consumption" means the exercise of any right or power over
22 tangible personal property incidental to owning the property except holding
23 for sale or selling the property in the regular course of business. FOR THE
24 PURPOSES OF THIS PARAGRAPH, SELLING THE PROPERTY IN THE REGULAR COURSE OF
25 BUSINESS DOES NOT INCLUDE THE TRANSFER OF TITLE OR POSSESSION OF COAL BACK
26 AND FORTH BETWEEN AN OWNER OR OPERATOR OF A POWER PLANT AND A PERSON WHO IS
27 RESPONSIBLE FOR REFINING COAL IF BOTH OF THE FOLLOWING APPLY:

28 (a) THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
29 OF REFINING THE COAL.

30 (b) THE TITLE OR POSSESSION OF THE COAL IS TRANSFERRED BACK TO THE
31 OWNER OR OPERATOR OF THE POWER PLANT AFTER COMPLETION OF THE COAL REFINING
32 PROCESS. FOR THE PURPOSES OF THIS SUBDIVISION, "COAL REFINING PROCESS" MEANS
33 THE APPLICATION OF A COAL ADDITIVE SYSTEM THAT AIDS THE REDUCTION OF POWER
34 PLANT EMISSIONS DURING THE COMBUSTION OF COAL AND THE TREATMENT OF FLUE GAS.

35 23. "Utility business" means a person that is engaged in the business
36 of providing electric utility services to retail electric customers or
37 natural gas utility services to retail natural gas customers.

38 Sec. 5. Section 42-5159, Arizona Revised Statutes, as amended by Laws
39 2013, first special session, chapter 9, section 7, is amended to read:

40 42-5159. Exemptions

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

- 1 1. Tangible personal property sold in this state, the gross receipts
2 from the sale of which are included in the measure of the tax imposed by
3 articles 1 and 2 of this chapter.
- 4 2. Tangible personal property the sale or use of which has already
5 been subjected to an excise tax at a rate equal to or exceeding the tax
6 imposed by this article under the laws of another state of the United States.
7 If the excise tax imposed by the other state is at a rate less than the tax
8 imposed by this article, the tax imposed by this article is reduced by the
9 amount of the tax already imposed by the other state.
- 10 3. Tangible personal property, the storage, use or consumption of
11 which the constitution or laws of the United States prohibit this state from
12 taxing or to the extent that the rate or imposition of tax is
13 unconstitutional under the laws of the United States.
- 14 4. Tangible personal property ~~which~~ THAT directly enters into and
15 becomes an ingredient or component part of any manufactured, fabricated or
16 processed article, substance or commodity for sale in the regular course of
17 business.
- 18 5. Motor vehicle fuel and use fuel, the sales, distribution or use of
19 which in this state is subject to the tax imposed under title 28, chapter 16,
20 article 1, use fuel ~~which~~ THAT is sold to or used by a person holding a valid
21 single trip use fuel tax permit issued under section 28-5739, aviation fuel,
22 the sales, distribution or use of which in this state is subject to the tax
23 imposed under section 28-8344, and jet fuel, the sales, distribution or use
24 of which in this state is subject to the tax imposed under article 8 of this
25 chapter.
- 26 6. Tangible personal property brought into this state by an individual
27 who was a nonresident at the time the property was purchased for storage, use
28 or consumption by the individual if the first actual use or consumption of
29 the property was outside this state, unless the property is used in
30 conducting a business in this state.
- 31 7. Purchases of implants used as growth promotants and injectable
32 medicines, not already exempt under paragraph 16 of this subsection, for
33 livestock and poultry owned by, or in possession of, persons who are engaged
34 in producing livestock, poultry, or livestock or poultry products, or who are
35 engaged in feeding livestock or poultry commercially. For the purposes of
36 this paragraph, "poultry" includes ratites.
- 37 8. Livestock, poultry, supplies, feed, salts, vitamins and other
38 additives for use or consumption in the businesses of farming, ranching and
39 feeding livestock or poultry, not including fertilizers, herbicides and
40 insecticides. For the purposes of this paragraph, "poultry" includes
41 ratites.
- 42 9. Seeds, seedlings, roots, bulbs, cuttings and other propagative
43 material for use in commercially producing agricultural, horticultural,
44 viticultural or floricultural crops in this state.

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

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

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

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

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

14 13. Tangible personal property purchased by:

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

18 (b) A hospital operated by this state or a political subdivision of
19 this state.

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

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

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

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

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

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

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

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

7 (i) A qualifying community health center as defined in section
8 42-5001.

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

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

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

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

30 15. Tangible personal property sold by:

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

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

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

- 1 16. Drugs and medical oxygen, including delivery hose, mask or tent,
2 regulator and tank, on the prescription of a member of the medical, dental or
3 veterinarian profession who is licensed by law to administer such substances.
- 4 17. Prosthetic appliances, as defined in section 23-501, prescribed or
5 recommended by a person who is licensed, registered or otherwise
6 professionally credentialed as a physician, dentist, podiatrist,
7 chiropractor, naturopath, homeopath, nurse or optometrist.
- 8 18. Prescription eyeglasses and contact lenses.
- 9 19. Insulin, insulin syringes and glucose test strips.
- 10 20. Hearing aids as defined in section 36-1901.
- 11 21. Durable medical equipment ~~which~~ **THAT** has a centers for medicare and
12 medicaid services common procedure code, is designated reimbursable by
13 medicare, is prescribed by a person who is licensed under title 32, chapter
14 7, 13, 17 or 29, can withstand repeated use, is primarily and customarily
15 used to serve a medical purpose, is generally not useful to a person in the
16 absence of illness or injury and is appropriate for use in the home.
- 17 22. Food, as provided in and subject to the conditions of article 3 of
18 this chapter and section 42-5074.
- 19 23. Items purchased with United States department of agriculture food
20 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
21 958) or food instruments issued under section 17 of the child nutrition act
22 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
23 section 1786).
- 24 24. Food and drink provided without monetary charge by a taxpayer ~~which~~
25 **THAT** is subject to section 42-5074 to its employees for their own consumption
26 on the premises during the employees' hours of employment.
- 27 25. Tangible personal property that is used or consumed in a business
28 subject to section 42-5074 for human food, drink or condiment, whether
29 simple, mixed or compounded.
- 30 26. Food, drink or condiment and accessory tangible personal property
31 that are acquired for use by or provided to a school district or charter
32 school if they are to be either served or prepared and served to persons for
33 consumption on the premises of a public school in the school district or on
34 the premises of the charter school during school hours.
- 35 27. Lottery tickets or shares purchased pursuant to title 5, chapter
36 5.1, article 1.
- 37 28. Textbooks, sold by a bookstore, that are required by any state
38 university or community college.
- 39 29. Magazines, other periodicals or other publications produced by this
40 state to encourage tourist travel.
- 41 30. Paper machine clothing, such as forming fabrics and dryer felts,
42 purchased by a paper manufacturer and directly used or consumed in paper
43 manufacturing.
- 44 31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
45 purchased by a qualified environmental technology manufacturer, producer or

1 processor as defined in section 41-1514.02 and directly used or consumed in
2 the generation or provision of on-site power or energy solely for
3 environmental technology manufacturing, producing or processing or
4 environmental protection. This paragraph shall apply for twenty full
5 consecutive calendar or fiscal years from the date the first paper
6 manufacturing machine is placed in service. In the case of an environmental
7 technology manufacturer, producer or processor who does not manufacture
8 paper, the time period shall begin with the date the first manufacturing,
9 processing or production equipment is placed in service.

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

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

14 (b) Public educational institutions.

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

18 33. Natural gas or liquefied petroleum gas used to propel a motor
19 vehicle.

20 34. Machinery, equipment, technology or related supplies that are only
21 useful to assist a person who is physically disabled as defined in section
22 46-191, has a developmental disability as defined in section 36-551 or has a
23 head injury as defined in section 41-3201 to be more independent and
24 functional.

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

38 36. Food, drink and condiment purchased for consumption within the
39 premises of any prison, jail or other institution under the jurisdiction of
40 the state department of corrections, the department of public safety, the
41 department of juvenile corrections or a county sheriff.

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

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

4 39. Overhead materials or other tangible personal property that is used
5 in performing a contract between the United States government and a
6 manufacturer, modifier, assembler or repairer, including property used in
7 performing a subcontract with a government contractor who is a manufacturer,
8 modifier, assembler or repairer, to which title passes to the government
9 under the terms of the contract or subcontract. For the purposes of this
10 paragraph:

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

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

27 40. Through December 31, 1994, tangible personal property sold pursuant
28 to a personal property liquidation transaction, as defined in section
29 42-5061. From and after December 31, 1994, tangible personal property sold
30 pursuant to a personal property liquidation transaction, as defined in
31 section 42-5061, if the gross proceeds of the sales were included in the
32 measure of the tax imposed by article 1 of this chapter or if the personal
33 property liquidation was a casual activity or transaction.

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

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

40 43. Tangible personal property purchased by a commercial airline and
41 consisting of food, beverages and condiments and accessories used for serving
42 the food and beverages, if those items are to be provided without additional
43 charge to passengers for consumption in flight. For the purposes of this
44 paragraph, "commercial airline" means a person holding a federal certificate
45 of public convenience and necessity or foreign air carrier permit for air

1 transportation to transport persons, property or United States mail in
2 intrastate, interstate or foreign commerce.

3 44. Alternative fuel vehicles if the vehicle was manufactured as a
4 diesel fuel vehicle and converted to operate on alternative fuel and
5 equipment that is installed in a conventional diesel fuel motor vehicle to
6 convert the vehicle to operate on an alternative fuel, as defined in section
7 1-215.

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

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

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

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

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

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

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

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

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

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

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

44 52. Repair parts installed in equipment used directly by a qualified
45 business under section 41-1516 in harvesting, processing or transporting

1 qualifying forest products removed from qualifying projects as defined in
2 section 41-1516.

3 53. Renewable energy credits or any other unit created to track energy
4 derived from renewable energy resources. For the purposes of this paragraph,
5 "renewable energy credit" means a unit created administratively by the
6 corporation commission or governing body of a public power entity to track
7 kilowatt hours of electricity derived from a renewable energy resource or the
8 kilowatt hour equivalent of conventional energy resources displaced by
9 distributed renewable energy resources.

10 54. Computer data center equipment purchased by the owner, operator or
11 qualified colocation tenant of the computer data center or an authorized
12 agent of the owner, operator or qualified colocation tenant during the
13 qualification period for use in a computer data center that is certified by
14 the Arizona commerce authority under section 41-1519. To qualify for this
15 deduction, at the time of purchase, the owner, operator or qualified
16 colocation tenant must present to the retailer its certificate that is issued
17 pursuant to section 41-1519 and that establishes its qualification for the
18 deduction. For the purposes of this paragraph, "computer data center",
19 "computer data center equipment", "qualification period" and "qualified
20 colocation tenant" have the same meanings prescribed in section 41-1519.

21 55. COAL ACQUIRED FROM AN OWNER OR OPERATOR OF A POWER PLANT BY A
22 PERSON WHO IS RESPONSIBLE FOR REFINING COAL IF BOTH OF THE FOLLOWING APPLY:

23 (a) THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
24 OF REFINING THE COAL.

25 (b) THE TITLE OR POSSESSION OF THE COAL IS TRANSFERRED BACK TO THE
26 OWNER OR OPERATOR OF THE POWER PLANT AFTER COMPLETION OF THE COAL REFINING
27 PROCESS. FOR THE PURPOSES OF THIS SUBDIVISION, "COAL REFINING PROCESS" MEANS
28 THE APPLICATION OF A COAL ADDITIVE SYSTEM THAT AIDS THE REDUCTION OF POWER
29 PLANT EMISSIONS DURING THE COMBUSTION OF COAL AND THE TREATMENT OF FLUE GAS.

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

33 1. Machinery, or equipment, used directly in manufacturing,
34 processing, fabricating, job printing, refining or metallurgical operations.
35 The terms "manufacturing", "processing", "fabricating", "job printing",
36 "refining" and "metallurgical" as used in this paragraph refer to and include
37 those operations commonly understood within their ordinary meaning.
38 "Metallurgical operations" includes leaching, milling, precipitating,
39 smelting and refining.

40 2. Machinery, or equipment, used directly in the process of extracting
41 ores or minerals from the earth for commercial purposes, including equipment
42 required to prepare the materials for extraction and handling, loading or
43 transporting such extracted material to the surface. "Mining" includes
44 underground, surface and open pit operations for extracting ores and
45 minerals.

1 3. Tangible personal property sold to persons engaged in business
2 classified under the telecommunications classification under section 42-5064
3 and consisting of central office switching equipment, switchboards, private
4 branch exchange equipment, microwave radio equipment and carrier equipment
5 including optical fiber, coaxial cable and other transmission media ~~which~~
6 ~~THAT~~ are components of carrier systems.

7 4. Machinery, equipment or transmission lines used directly in
8 producing or transmitting electrical power, but not including distribution.
9 Transformers and control equipment used at transmission substation sites
10 constitute equipment used in producing or transmitting electrical power.

11 5. Neat animals, horses, asses, sheep, ratices, swine or goats used or
12 to be used as breeding or production stock, including sales of breedings or
13 ownership shares in such animals used for breeding or production.

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

18 7. Aircraft, navigational and communication instruments and other
19 accessories and related equipment sold to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

42 For the purposes of subdivision (b) of this paragraph, "test period" means
43 the three hundred sixty-five day period beginning on the later of the date on
44 which the tangible personal property is purchased or the date on which the

1 direct broadcast satellite television or data transmission service first
2 transmits information to its customers.

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

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

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

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

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

33 19. Machinery and equipment that are used in the commercial production
34 of livestock, livestock products or agricultural, horticultural, viticultural
35 or floricultural crops or products in this state and that are used directly
36 and primarily to prevent, monitor, control or reduce air, water or land
37 pollution.

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

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

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

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

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

14 C. The exemptions provided by subsection B of this section do not
15 include:

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

20 2. Janitorial equipment and hand tools.

21 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

6 1. Fees charged by a municipally owned utility to persons constructing
7 residential, commercial or industrial developments or connecting residential,
8 commercial or industrial developments to a municipal utility system or
9 systems if the fees are segregated and used only for capital expansion,
10 system enlargement or debt service of the utility system or systems.

11 2. Reimbursement or contribution compensation to any person or persons
12 owning a utility system for property and equipment installed to provide
13 utility access to, on or across the land of an actual utility consumer if the
14 property and equipment become the property of the utility. This deduction
15 shall not exceed the value of such property and equipment.

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

17 1. "Aircraft" includes:

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

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

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

27 H. For the purposes of subsection D of this section, "ancillary
28 services", "electric distribution service", "electric generation service",
29 "electric transmission service" and "other services" have the same meanings
30 prescribed in section 42-5063.

31 Sec. 6. Section 42-5159, Arizona Revised Statutes, as amended by Laws
32 2013, chapter 255, section 17, is amended to read:

33 42-5159. Exemptions

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

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

40 2. Tangible personal property the sale or use of which has already
41 been subjected to an excise tax at a rate equal to or exceeding the tax
42 imposed by this article under the laws of another state of the United States.
43 If the excise tax imposed by the other state is at a rate less than the tax
44 imposed by this article, the tax imposed by this article is reduced by the
45 amount of the tax already imposed by the other state.

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

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

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

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

21 7. Purchases of implants used as growth promotants and injectable
22 medicines, not already exempt under paragraph 16 of this subsection, for
23 livestock and poultry owned by, or in possession of, persons who are engaged
24 in producing livestock, poultry, or livestock or poultry products, or who are
25 engaged in feeding livestock or poultry commercially. For the purposes of
26 this paragraph, "poultry" includes ratites.

27 8. Livestock, poultry, supplies, feed, salts, vitamins and other
28 additives for use or consumption in the businesses of farming, ranching and
29 feeding livestock or poultry, not including fertilizers, herbicides and
30 insecticides. For the purposes of this paragraph, "poultry" includes
31 ratites.

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

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

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

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

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

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

3 13. Tangible personal property purchased by:

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

7 (b) A hospital operated by this state or a political subdivision of
8 this state.

9 (c) A licensed nursing care institution or a licensed residential care
10 institution or a residential care facility operated in conjunction with a
11 licensed nursing care institution or a licensed kidney dialysis center, which
12 provides medical services, nursing services or health related services and is
13 not used or held for profit.

14 (d) A qualifying health care organization, as defined in section
15 42-5001, if the tangible personal property is used by the organization solely
16 to provide health and medical related educational and charitable services.

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

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

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

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

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

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

40 (i) A qualifying community health center as defined in section
41 42-5001.

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

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

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

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

19 15. Tangible personal property sold by:

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

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

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

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

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

40 18. Prescription eyeglasses and contact lenses.

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

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

43 21. Durable medical equipment that has a centers for medicare and
44 medicaid services common procedure code, is designated reimbursable by
45 medicare, is prescribed by a person who is licensed under title 32, chapter

1 7, 13, 17 or 29, can withstand repeated use, is primarily and customarily
2 used to serve a medical purpose, is generally not useful to a person in the
3 absence of illness or injury and is appropriate for use in the home.

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

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

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

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

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

22 27. Lottery tickets or shares purchased pursuant to title 5, chapter
23 5.1, article 1.

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

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

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

31 31. Coal, petroleum, coke, natural gas, virgin fuel oil and electricity
32 purchased by a qualified environmental technology manufacturer, producer or
33 processor as defined in section 41-1514.02 and directly used or consumed in
34 the generation or provision of on-site power or energy solely for
35 environmental technology manufacturing, producing or processing or
36 environmental protection. This paragraph shall apply for twenty full
37 consecutive calendar or fiscal years from the date the first paper
38 manufacturing machine is placed in service. In the case of an environmental
39 technology manufacturer, producer or processor who does not manufacture
40 paper, the time period shall begin with the date the first manufacturing,
41 processing or production equipment is placed in service.

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

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

1 (b) Public educational institutions.

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

5 33. Natural gas or liquefied petroleum gas used to propel a motor
6 vehicle.

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

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

25 36. Food, drink and condiment purchased for consumption within the
26 premises of any prison, jail or other institution under the jurisdiction of
27 the state department of corrections, the department of public safety, the
28 department of juvenile corrections or a county sheriff.

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

33 38. Tangible personal property that is or directly enters into and
34 becomes an ingredient or component part of cards used as prescription plan
35 identification cards.

36 39. Overhead materials or other tangible personal property that is used
37 in performing a contract between the United States government and a
38 manufacturer, modifier, assembler or repairer, including property used in
39 performing a subcontract with a government contractor who is a manufacturer,
40 modifier, assembler or repairer, to which title passes to the government
41 under the terms of the contract or subcontract. For the purposes of this
42 paragraph:

43 (a) "Overhead materials" means tangible personal property, the gross
44 proceeds of sales or gross income derived from which would otherwise be
45 included in the retail classification, that is used or consumed in the

1 performance of a contract, the cost of which is charged to an overhead
2 expense account and allocated to various contracts based on generally
3 accepted accounting principles and consistent with government contract
4 accounting standards.

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

14 40. Through December 31, 1994, tangible personal property sold pursuant
15 to a personal property liquidation transaction, as defined in section
16 42-5061. From and after December 31, 1994, tangible personal property sold
17 pursuant to a personal property liquidation transaction, as defined in
18 section 42-5061, if the gross proceeds of the sales were included in the
19 measure of the tax imposed by article 1 of this chapter or if the personal
20 property liquidation was a casual activity or transaction.

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

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

27 43. Tangible personal property purchased by a commercial airline and
28 consisting of food, beverages and condiments and accessories used for serving
29 the food and beverages, if those items are to be provided without additional
30 charge to passengers for consumption in flight. For the purposes of this
31 paragraph, "commercial airline" means a person holding a federal certificate
32 of public convenience and necessity or foreign air carrier permit for air
33 transportation to transport persons, property or United States mail in
34 intrastate, interstate or foreign commerce.

35 44. Alternative fuel vehicles if the vehicle was manufactured as a
36 diesel fuel vehicle and converted to operate on alternative fuel and
37 equipment that is installed in a conventional diesel fuel motor vehicle to
38 convert the vehicle to operate on an alternative fuel, as defined in section
39 1-215.

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

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

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

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

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

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

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

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

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

25 (b) "Curriculum design or enhancement" means planning, implementing or
26 reporting on courses of study, lessons, assignments or other learning
27 activities.

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

32 52. Repair parts installed in equipment used directly by a qualified
33 business under section 41-1516 in harvesting, processing or transporting
34 qualifying forest products removed from qualifying projects as defined in
35 section 41-1516.

36 53. Renewable energy credits or any other unit created to track energy
37 derived from renewable energy resources. For the purposes of this paragraph,
38 "renewable energy credit" means a unit created administratively by the
39 corporation commission or governing body of a public power entity to track
40 kilowatt hours of electricity derived from a renewable energy resource or the
41 kilowatt hour equivalent of conventional energy resources displaced by
42 distributed renewable energy resources.

43 54. COAL ACQUIRED FROM AN OWNER OR OPERATOR OF A POWER PLANT BY A
44 PERSON WHO IS RESPONSIBLE FOR REFINING COAL IF BOTH OF THE FOLLOWING APPLY:

1 (a) THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
2 OF REFINING THE COAL.

3 (b) THE TITLE OR POSSESSION OF THE COAL IS TRANSFERRED BACK TO THE
4 OWNER OR OPERATOR OF THE POWER PLANT AFTER COMPLETION OF THE COAL REFINING
5 PROCESS. FOR THE PURPOSES OF THIS SUBDIVISION, "COAL REFINING PROCESS" MEANS
6 THE APPLICATION OF A COAL ADDITIVE SYSTEM THAT AIDS THE REDUCTION OF POWER
7 PLANT EMISSIONS DURING THE COMBUSTION OF COAL AND THE TREATMENT OF FLUE GAS.

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

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

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

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

30 4. Machinery, equipment or transmission lines used directly in
31 producing or transmitting electrical power, but not including distribution.
32 Transformers and control equipment used at transmission substation sites
33 constitute equipment used in producing or transmitting electrical power.

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

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

41 7. Aircraft, navigational and communication instruments and other
42 accessories and related equipment sold to:

43 (a) A person holding a federal certificate of public convenience and
44 necessity, a supplemental air carrier certificate under federal aviation
45 regulations (14 Code of Federal Regulations part 121) or a foreign air

1 carrier permit for air transportation for use as or in conjunction with or
2 becoming a part of aircraft to be used to transport persons, property or
3 United States mail in intrastate, interstate or foreign commerce.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

44 18. Machinery or equipment, including related structural components,
45 that is employed in connection with manufacturing, processing, fabricating,

1 job printing, refining, mining, natural gas pipelines, metallurgical
2 operations, telecommunications, producing or transmitting electricity or
3 research and development and that is used directly to meet or exceed rules or
4 regulations adopted by the federal energy regulatory commission, the United
5 States environmental protection agency, the United States nuclear regulatory
6 commission, the Arizona department of environmental quality or a political
7 subdivision of this state to prevent, monitor, control or reduce land, water
8 or air pollution.

9 19. Machinery and equipment that are used in the commercial production
10 of livestock, livestock products or agricultural, horticultural, viticultural
11 or floricultural crops or products in this state and that are used directly
12 and primarily to prevent, monitor, control or reduce air, water or land
13 pollution.

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

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

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

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

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

34 C. The exemptions provided by subsection B of this section do not
35 include:

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

40 2. Janitorial equipment and hand tools.

41 3. Office equipment, furniture and supplies.

42 4. Tangible personal property used in selling or distributing
43 activities, other than the telecommunications transmissions described in
44 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 tangible personal property used by a
9 contractor in the performance of a contract.

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

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

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

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

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

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

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

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

38 1. "Aircraft" includes:

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

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

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

4 H. For the purposes of subsection D of this section, "ancillary
5 services", "electric distribution service", "electric generation service",
6 "electric transmission service" and "other services" have the same meanings
7 prescribed in section 42-5063.

8 Sec. 7. Section 42-6004, Arizona Revised Statutes, as amended by Laws
9 2013, first special session, chapter 9, section 8, Laws 2013, first regular
10 session, chapter 27, section 2, chapter 120, section 2, chapter 153, section
11 2 and chapter 236, section 6, is amended to read:

12 42-6004. Exemption from municipal tax

13 A. A city, town or special taxing district shall not levy a
14 transaction privilege, sales, use or other similar tax on:

15 1. Exhibition events in this state sponsored, conducted or operated by
16 a nonprofit organization that is exempt from taxation under section
17 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the
18 organization is associated with a major league baseball team or a national
19 touring professional golfing association and no part of the organization's
20 net earnings inures to the benefit of any private shareholder or individual.

21 2. Interstate telecommunications services, which include that portion
22 of telecommunications services, such as subscriber line service, allocable by
23 federal law to interstate telecommunications service.

24 3. Sales of warranty or service contracts.

25 4. Sales of motor vehicles to nonresidents of this state for use
26 outside this state if the vendor ships or delivers the motor vehicle to a
27 destination outside this state.

28 5. Interest on finance contracts.

29 6. Dealer documentation fees on the sales of motor vehicles.

30 7. Sales of food or other items purchased with United States
31 department of agriculture food stamp coupons issued under the food stamp act
32 of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under section
33 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661,
34 section 4302; 42 United States Code section 1786) but may impose such a tax
35 on other sales of food. If a city, town or special taxing district exempts
36 sales of food from its tax or imposes a different transaction privilege rate
37 on the gross proceeds of sales or gross income from sales of food and nonfood
38 items, it shall use the definition of food prescribed by rule adopted by the
39 department pursuant to section 42-5106.

40 8. Orthodontic devices dispensed by a dental professional who is
41 licensed under title 32, chapter 11 to a patient as part of the practice of
42 dentistry.

43 9. Sales of internet access services to the person's subscribers and
44 customers. For the purposes of this paragraph:

1 (a) "Internet" means the computer and telecommunications facilities
2 that comprise the interconnected worldwide network of networks that employ
3 the transmission control protocol or internet protocol, or any predecessor or
4 successor protocol, to communicate information of all kinds by wire or radio.

5 (b) "Internet access" means a service that enables users to access
6 content, information, electronic mail or other services over the internet.
7 Internet access does not include telecommunication services provided by a
8 common carrier.

9 10. The gross proceeds of sales or gross income retained by the Arizona
10 exposition and state fair board from ride ticket sales at the annual Arizona
11 state fair.

12 11. Through August 31, 2014, sales of Arizona centennial medallions by
13 the historical advisory commission.

14 12. Leasing real property between affiliated companies, businesses,
15 persons or reciprocal insurers. For the purposes of this paragraph:

16 (a) "Affiliated companies, businesses, persons or reciprocal insurers"
17 means the lessor holds a controlling interest in the lessee, the lessee holds
18 a controlling interest in the lessor, an affiliated entity holds a
19 controlling interest in both the lessor and the lessee or an unrelated person
20 holds a controlling interest in both the lessor and lessee.

21 (b) "Controlling interest" means direct or indirect ownership of at
22 least eighty per cent of the voting shares of a corporation or of the
23 interests in a company, business or person other than a corporation.

24 (c) "Reciprocal insurer" has the same meaning prescribed in section
25 20-762.

26 13. The gross proceeds of sales or gross income derived from a contract
27 for the installation, assembly, repair or maintenance of machinery, equipment
28 or other tangible personal property described in section 42-5061, subsection
29 B and that has independent functional utility, pursuant to the following
30 provisions:

31 (a) The deduction provided in this paragraph includes the gross
32 proceeds of sales or gross income derived from all of the following:

33 (i) Any activity performed on machinery, equipment or other tangible
34 personal property with independent functional utility.

35 (ii) Any activity performed on any tangible personal property relating
36 to machinery, equipment or other tangible personal property with independent
37 functional utility in furtherance of any of the purposes provided for under
38 subdivision (d) of this paragraph.

39 (iii) Any activity that is related to the activities described in
40 ~~subdivision (a),~~ items (i) and (ii) of this ~~paragraph~~ **SUBDIVISION**,
41 including, ~~but not limited to,~~ inspecting the installation of, ~~or testing,~~
42 the machinery, equipment or other tangible personal property.

43 (b) The deduction provided in this paragraph does not include gross
44 proceeds of sales or gross income from the portion of any contracting
45 activity that consists of the development of, or modification to, real

1 property in order to facilitate the installation, assembly, repair,
2 maintenance or removal of machinery, equipment or other tangible personal
3 property described in section 42-5061, subsection B.

4 (c) The deduction provided in this paragraph shall be determined
5 without regard to the size or useful life of the machinery, equipment or
6 other tangible personal property.

7 (d) For the purposes of this paragraph, "independent functional
8 utility" means that the machinery, equipment or other tangible personal
9 property can independently perform its function without attachment to real
10 property, other than attachment for any of the following purposes:

11 (i) Assembling the machinery, equipment or other tangible personal
12 property.

13 (ii) Connecting items of machinery, equipment or other tangible
14 personal property to each other.

15 (iii) Connecting the machinery, equipment or other tangible personal
16 property, whether as an individual item or as a system of items, to water,
17 power, gas, communication or other services.

18 (iv) Stabilizing or protecting the machinery, equipment or other
19 tangible personal property during operation by bolting, burying or performing
20 other dissimilar nonpermanent connections to either real property or real
21 property improvements.

22 14. The leasing or renting of certified ignition interlock devices
23 installed pursuant to the requirements prescribed by section 28-1461. For
24 the purposes of this paragraph, "certified ignition interlock device" has the
25 same meaning prescribed in section 28-1301.

26 15. Computer data center equipment purchased by the owner, operator or
27 qualified colocation tenant of the computer data center or an authorized
28 agent of the owner, operator or qualified colocation tenant during the
29 qualification period for use in a computer data center that is certified by
30 the Arizona commerce authority under section 41-1519. To qualify for this
31 deduction, at the time of purchase, the owner, operator or qualified
32 colocation tenant must present to the retailer its certificate that is issued
33 pursuant to section 41-1519 and that establishes its qualification for the
34 deduction. For the purposes of this paragraph, "computer data center",
35 "computer data center equipment", "qualification period" and "qualified
36 colocation tenant" have the same meanings prescribed in section 41-1519.

37 16. THE TRANSFER OF TITLE OR POSSESSION OF COAL BACK AND FORTH BETWEEN
38 AN OWNER OR OPERATOR OF A POWER PLANT AND A PERSON WHO IS RESPONSIBLE FOR
39 REFINING COAL IF BOTH OF THE FOLLOWING APPLY:

40 (a) THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
41 OF REFINING THE COAL.

42 (b) THE TITLE OR POSSESSION OF THE COAL IS TRANSFERRED BACK TO THE
43 OWNER OR OPERATOR OF THE POWER PLANT AFTER COMPLETION OF THE COAL REFINING
44 PROCESS. FOR THE PURPOSES OF THIS SUBDIVISION, "COAL REFINING PROCESS" MEANS

1 THE APPLICATION OF A COAL ADDITIVE SYSTEM THAT AIDS THE REDUCTION OF POWER
2 PLANT EMISSIONS DURING THE COMBUSTION OF COAL AND THE TREATMENT OF FLUE GAS.

3 B. A city, town or other taxing jurisdiction shall not levy a
4 transaction privilege, sales, use, franchise or other similar tax or fee,
5 however denominated, on natural gas or liquefied petroleum gas used to propel
6 a motor vehicle.

7 C. A city, town or other taxing jurisdiction shall not levy a
8 transaction privilege, sales, gross receipts, use, franchise or other similar
9 tax or fee, however denominated, on gross proceeds of sales or gross income
10 derived from any of the following:

11 1. A motor carrier's use on the public highways in this state if the
12 motor carrier is subject to a fee prescribed in title 28, chapter 16,
13 article 4.

14 2. Leasing, renting or licensing a motor vehicle subject to and upon
15 which the fee has been paid under title 28, chapter 16, article 4.

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

21 4. Incarcerating or detaining in a privately operated prison, jail or
22 detention facility prisoners who are under the jurisdiction of the United
23 States, this state or any other state or a political subdivision of this
24 state or of any other state.

25 5. Transporting for hire persons, freight or property by light motor
26 vehicles subject to a fee under title 28, chapter 15, article 4.

27 6. Any amount attributable to development fees that are incurred in
28 relation to the construction, development or improvement of real property and
29 paid by the taxpayer as defined in the model city tax code or by a contractor
30 providing services to the taxpayer. For the purposes of this paragraph:

31 (a) The attributable amount shall not exceed the value of the
32 development fees actually imposed.

33 (b) The attributable amount is equal to the total amount of
34 development fees paid by the taxpayer or by a contractor providing services
35 to the taxpayer and the total development fees credited in exchange for the
36 construction of, contribution to or dedication of real property for providing
37 public infrastructure, public safety or other public services necessary to
38 the development. The real property must be the subject of the development
39 fees.

40 (c) "Development fees" means fees imposed to offset capital costs of
41 providing public infrastructure, public safety or other public services to a
42 development and authorized pursuant to section 9-463.05, section 11-1102 or
43 title 48 regardless of the jurisdiction to which the fees are paid.

44 D. A city, town or other taxing jurisdiction shall not levy a
45 transaction privilege, sales, use, franchise or other similar tax or fee,

1 however denominated, in excess of one-tenth of one per cent of the value of
2 the entire product mined, smelted, extracted, refined, produced or prepared
3 for sale, profit or commercial use, on persons engaged in the business of
4 mineral processing, except to the extent that the tax is computed on the
5 gross proceeds or gross income from sales at retail.

6 E. In computing the tax base, any city, town or other taxing
7 jurisdiction shall not include in the gross proceeds of sales or gross
8 income:

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

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

12 F. A city or town shall not levy a use tax on the storage, use or
13 consumption of tangible personal property in the city or town by a school
14 district or charter school.

15 Sec. 8. Section 42-6004, Arizona Revised Statutes, as amended by Laws
16 2013, chapter 255, section 20, is amended to read:

17 42-6004. Exemption from municipal tax

18 A. A city, town or special taxing district shall not levy a
19 transaction privilege, sales, use or other similar tax on:

20 1. Exhibition events in this state sponsored, conducted or operated by
21 a nonprofit organization that is exempt from taxation under section
22 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the
23 organization is associated with a major league baseball team or a national
24 touring professional golfing association and no part of the organization's
25 net earnings inures to the benefit of any private shareholder or individual.

26 2. Interstate telecommunications services, which include that portion
27 of telecommunications services, such as subscriber line service, allocable by
28 federal law to interstate telecommunications service.

29 3. Sales of warranty or service contracts.

30 4. Sales of motor vehicles to nonresidents of this state for use
31 outside this state if the motor vehicle dealer ships or delivers the motor
32 vehicle to a destination outside this state.

33 5. Interest on finance contracts.

34 6. Dealer documentation fees on the sales of motor vehicles.

35 7. Sales of food or other items purchased with United States
36 department of agriculture food stamp coupons issued under the food stamp act
37 of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under section
38 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661,
39 section 4302; 42 United States Code section 1786) but may impose such a tax
40 on other sales of food. If a city, town or special taxing district exempts
41 sales of food from its tax or imposes a different transaction privilege rate
42 on the gross proceeds of sales or gross income from sales of food and nonfood
43 items, it shall use the definition of food prescribed by rule adopted by the
44 department pursuant to section 42-5106.

1 8. Sales of internet access services to the person's subscribers and
2 customers. For the purposes of this paragraph:

3 (a) "Internet" means the computer and telecommunications facilities
4 that comprise the interconnected worldwide network of networks that employ
5 the transmission control protocol or internet protocol, or any predecessor or
6 successor protocol, to communicate information of all kinds by wire or radio.

7 (b) "Internet access" means a service that enables users to access
8 content, information, electronic mail or other services over the internet.
9 Internet access does not include telecommunication services provided by a
10 common carrier.

11 9. The gross proceeds of sales or gross income retained by the Arizona
12 exposition and state fair board from ride ticket sales at the annual Arizona
13 state fair.

14 10. Through August 31, 2014, sales of Arizona centennial medallions by
15 the historical advisory commission.

16 11. The gross proceeds of sales or gross income derived from a
17 commercial lease in which a reciprocal insurer or a corporation leases real
18 property to an affiliated corporation. For the purposes of this paragraph:

19 (a) "Affiliated corporation" means a corporation that meets one of the
20 following conditions:

21 (i) The corporation owns or controls at least eighty per cent of the
22 lessor.

23 (ii) The corporation is at least eighty per cent owned or controlled
24 by the lessor.

25 (iii) The corporation is at least eighty per cent owned or controlled
26 by a corporation that also owns or controls at least eighty per cent of the
27 lessor.

28 (iv) The corporation is at least eighty per cent owned or controlled
29 by a corporation that is at least eighty per cent owned or controlled by a
30 reciprocal insurer.

31 (b) For the purposes of subdivision (a) of this paragraph, ownership
32 and control are determined by reference to the voting shares of a
33 corporation.

34 (c) "Reciprocal insurer" has the same meaning prescribed in section
35 20-762.

36 12. The gross proceeds of sales or gross income derived from a
37 commercial lease in which a corporation leases real property to a corporation
38 of which at least eighty per cent of the voting shares of each corporation
39 are owned by the same shareholders.

40 13. The gross proceeds of sales or gross income derived from a contract
41 with the owner of real property for the maintenance, repair or replacement of
42 existing property is not subject to tax if the contract does not include
43 modification activities. For the purposes of this paragraph:

1 (a) Each contract or project is independent of another contract.

2 (b) "Modification" means construction, alteration, addition,
3 subtraction, improvement, movement, wreckage or demolition.

4 14. THE TRANSFER OF TITLE OR POSSESSION OF COAL BACK AND FORTH BETWEEN
5 AN OWNER OR OPERATOR OF A POWER PLANT AND A PERSON WHO IS RESPONSIBLE FOR
6 REFINING COAL IF BOTH OF THE FOLLOWING APPLY:

7 (a) THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
8 OF REFINING THE COAL.

9 (b) THE TITLE OR POSSESSION OF THE COAL IS TRANSFERRED BACK TO THE
10 OWNER OR OPERATOR OF THE POWER PLANT AFTER COMPLETION OF THE COAL REFINING
11 PROCESS. FOR THE PURPOSES OF THIS SUBDIVISION, "COAL REFINING PROCESS" MEANS
12 THE APPLICATION OF A COAL ADDITIVE SYSTEM THAT AIDS THE REDUCTION OF POWER
13 PLANT EMISSIONS DURING THE COMBUSTION OF COAL AND THE TREATMENT OF FLUE GAS.

14 B. A city, town or other taxing jurisdiction shall not levy a
15 transaction privilege, sales, use, franchise or other similar tax or fee,
16 however denominated, on natural gas or liquefied petroleum gas used to propel
17 a motor vehicle.

18 C. A city, town or other taxing jurisdiction shall not levy a
19 transaction privilege, sales, gross receipts, use, franchise or other similar
20 tax or fee, however denominated, on gross proceeds of sales or gross income
21 derived from any of the following:

22 1. A motor carrier's use on the public highways in this state if the
23 motor carrier is subject to a fee prescribed in title 28, chapter 16,
24 article 4.

25 2. Leasing, renting or licensing a motor vehicle subject to and on
26 which the fee has been paid under title 28, chapter 16, article 4.

27 3. The sale of a motor vehicle and any repair and replacement parts
28 and tangible personal property becoming a part of such motor vehicle to a
29 motor carrier who is subject to a fee prescribed in title 28, chapter 16,
30 article 4 and who is engaged in the business of leasing, renting or licensing
31 such property.

32 4. Incarcerating or detaining in a privately operated prison, jail or
33 detention facility prisoners who are under the jurisdiction of the United
34 States, this state or any other state or a political subdivision of this
35 state or of any other state.

36 5. Transporting for hire persons, freight or property by light motor
37 vehicles subject to a fee under title 28, chapter 15, article 4.

38 6. Any amount attributable to development fees that are incurred in
39 relation to the construction, development or improvement of real property and
40 paid by the taxpayer as defined in the model city tax code or by a contractor
41 providing services to the taxpayer. For the purposes of this paragraph:

42 (a) The attributable amount shall not exceed the value of the
43 development fees actually imposed.

44 (b) The attributable amount is equal to the total amount of
45 development fees paid by the taxpayer or by a contractor providing services

1 to the taxpayer and the total development fees credited in exchange for the
2 construction of, contribution to or dedication of real property for providing
3 public infrastructure, public safety or other public services necessary to
4 the development. The real property must be the subject of the development
5 fees.

6 (c) "Development fees" means fees imposed to offset capital costs of
7 providing public infrastructure, public safety or other public services to a
8 development and authorized pursuant to section 9-463.05, section 11-1102 or
9 title 48 regardless of the jurisdiction to which the fees are paid.

10 D. A city, town or other taxing jurisdiction shall not levy a
11 transaction privilege, sales, use, franchise or other similar tax or fee,
12 however denominated, in excess of one-tenth of one per cent of the value of
13 the entire product mined, smelted, extracted, refined, produced or prepared
14 for sale, profit or commercial use, on persons engaged in the business of
15 mineral processing, except to the extent that the tax is computed on the
16 gross proceeds or gross income from sales at retail.

17 E. In computing the tax base, any city, town or other taxing
18 jurisdiction shall not include in the gross proceeds of sales or gross
19 income:

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

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

23 F. A city or town shall not levy a use tax on the storage, use or
24 consumption of tangible personal property in the city or town by a school
25 district or charter school.

26 Sec. 9. Retroactivity

27 This act applies retroactively to refining facilities constructed in
28 this state from and after December 31, 2013.

29 Sec. 10. Effective date

30 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2013,
31 chapter 255, section 13 and this act, section 42-5159, Arizona Revised
32 Statutes, as amended by Laws 2013, chapter 255, section 17 and this act and
33 section 42-6004, Arizona Revised Statutes, as amended by Laws 2013, chapter
34 255, section 20 and this act are effective from and after December 31, 2014.