

REFERENCE TITLE: aviation registration; taxation

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

HB 2627

Introduced by
Representatives Forese, Townsend, Senators Burges, Melvin, Reagan:
Representatives Boyer, Cardenas, Gallego, Gowan, Gray, Kavanagh, Mesnard,
Pierce J, Shope, Wheeler, Senator Driggs

AN ACT

AMENDING SECTIONS 28-8322, 28-8325 AND 28-8335, ARIZONA REVISED STATUTES; PROVIDING FOR THE DELAYED REPEAL OF SECTION 28-8336, ARIZONA REVISED STATUTES; AMENDING SECTIONS 28-8337, 28-8338 AND 28-8339, ARIZONA REVISED STATUTES; PROVIDING FOR THE DELAYED REPEAL OF SECTIONS 28-8341 AND 28-8342, ARIZONA REVISED STATUTES; AMENDING SECTIONS 28-8344 AND 28-8345, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST REGULAR SESSION, CHAPTER 120, SECTION 1 AND CHAPTER 233, SECTION 1 AND LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 5; PROVIDING FOR THE DELAYED REPEAL OF SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 13; AMENDING SECTION 42-5062, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 7; PROVIDING FOR THE DELAYED REPEAL OF SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 17; RELATING TO AVIATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 28-8322, Arizona Revised Statutes, is amended
3 effective from and after December 31, 2014, to read:

4 28-8322. Registration; exceptions

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

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

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

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

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

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

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

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

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

37 Sec. 2. Section 28-8325, Arizona Revised Statutes, is amended
38 effective from and after December 31, 2014, to read:

39 28-8325. Registration fee; certificate

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

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

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

4 Sec. 3. Section 28-8335, Arizona Revised Statutes, is amended
5 effective from and after December 31, 2014, to read:

6 28-8335. License tax; tax rate

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

12 B. Except as provided in sections ~~28-8336 through 28-8341~~ 28-8337,
13 28-8338, 28-8339 AND 28-8340, the department shall determine and assess the
14 license tax prescribed by subsection A of this section on the FOLLOWING
15 basis: ~~of one-half per cent of the average fair market value of the~~
16 ~~particular make, model and year of aircraft. The tax assessed under this~~
17 ~~subsection shall not be less than twenty dollars for a full year of~~
18 ~~registration.~~

- 19 1. FOR A SINGLE-ENGINE RECIPROCATING OR DIESEL POWERED AIRCRAFT,
20 _____ DOLLARS.
- 21 2. FOR A SINGLE-ENGINE TURBOPROP POWERED AIRCRAFT, _____
22 DOLLARS.
- 23 3. FOR A SINGLE-ENGINE TURBINE POWERED AIRCRAFT, _____
24 DOLLARS.
- 25 4. FOR A MULTI-ENGINE TURBOPROP POWERED AIRCRAFT, _____
26 DOLLARS.
- 27 5. FOR A MULTI-ENGINE TURBINE POWERED AIRCRAFT, _____ DOLLARS.

28 Sec. 4. Delayed repeal

29 Section 28-8336, Arizona Revised Statutes, is repealed effective from
30 and after December 31, 2014.

31 Sec. 5. Section 28-8337, Arizona Revised Statutes, is amended
32 effective from and after December 31, 2014, to read:

33 28-8337. Stored or repaired aircraft; license tax rate

34 A. The annual license tax for aircraft that is in storage or that is
35 being repaired is ~~twenty~~ _____ dollars for each aircraft, ~~except for an~~
36 ~~aircraft taxed under section 28-8341.~~

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

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

1 Sec. 6. Section 28-8338, Arizona Revised Statutes, is amended
2 effective from and after December 31, 2014, to read:

3 28-8338. Salvage aircraft; license tax rate; definition

4 A. The annual license tax for a salvage aircraft that is in storage or
5 that is being restored is ~~five~~ _____ dollars for each aircraft, and the
6 tax shall not be prorated.

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

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

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

19 Sec. 7. Section 28-8339, Arizona Revised Statutes, is amended
20 effective from and after December 31, 2014, to read:

21 28-8339. Special aircraft; license tax rate; definitions

22 A. The annual license tax for an antique, classic, warbird, glider,
23 experimental, homebuilt or balloon aircraft is ~~twenty~~ _____ dollars
24 for each aircraft.

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

29 C. For the purposes of this section:

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

32 2. "Balloon" means either:

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

35 (b) A hot air balloon.

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

39 4. "Experimental aircraft" means an aircraft that is designated as
40 experimental on its federal aviation administration airworthiness
41 certificate.

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

44 6. "Homebuilt aircraft" means an aircraft that is constructed
45 primarily by an individual for the individual's personal use excluding an

1 aircraft that is constructed primarily by a for profit aircraft manufacturing
2 business.

3 7. "Warbird aircraft" means an aircraft that is built before January
4 1, 1948 expressly for the purpose of military service.

5 Sec. 8. Delayed repeal

6 Sections 28-8341 and 28-8342, Arizona Revised Statutes, are repealed
7 effective from and after December 31, 2014.

8 Sec. 9. Section 28-8344, Arizona Revised Statutes, is amended
9 effective from and after December 31, 2014, to read:

10 28-8344. Aviation fuel tax; rate; definition

11 A. In addition to all other taxes provided by law, each supplier shall
12 pay to this state a tax of ~~five~~ _____ cents for each gallon of aviation fuel
13 as provided in chapter 16, article 1 of this title.

14 B. For the purposes of this section, "supplier" has the same meaning
15 prescribed in section 28-5601.

16 Sec. 10. Section 28-8345, Arizona Revised Statutes, is amended
17 effective from and after December 31, 2014, to read:

18 28-8345. Registration fees; penalties; taxes; distribution

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

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

28 Sec. 11. Section 42-5061, Arizona Revised Statutes, as amended by Laws
29 2013, first regular session, chapter 120, section 1 and chapter 233, section
30 1 and Laws 2013, first special session, chapter 9, section 5, is amended
31 effective from and after December 31, 2014, to read:

32 42-5061. Retail classification; definitions

33 A. The retail classification is comprised of the business of selling
34 tangible personal property at retail. The tax base for the retail
35 classification is the gross proceeds of sales or gross income derived from
36 the business. The tax imposed on the retail classification does not apply to
37 the gross proceeds of sales or gross income from:

38 1. Professional or personal service occupations or businesses that
39 involve sales or transfers of tangible personal property only as
40 inconsequential elements.

41 2. Services rendered in addition to selling tangible personal property
42 at retail.

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

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

1 for consumption on the premises of a public school within the district or on
2 the premises of the charter school during school hours.

3 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
4 article 1.

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

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

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

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

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

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

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

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

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

- 1 25. Tangible personal property sold to:
- 2 (a) A qualifying hospital as defined in section 42-5001.
- 3 (b) A qualifying health care organization as defined in section
- 4 42-5001 if the tangible personal property is used by the organization solely
- 5 to provide health and medical related educational and charitable services.
- 6 (c) A qualifying health care organization as defined in section
- 7 42-5001 if the organization is dedicated to providing educational,
- 8 therapeutic, rehabilitative and family medical education training for blind,
- 9 visually impaired and multihandicapped children from the time of birth to age
- 10 twenty-one.
- 11 (d) A qualifying community health center as defined in section
- 12 42-5001.
- 13 (e) A nonprofit charitable organization that has qualified under
- 14 section 501(c)(3) of the internal revenue code and that regularly serves
- 15 meals to the needy and indigent on a continuing basis at no cost.
- 16 (f) For taxable periods beginning from and after June 30, 2001, a
- 17 nonprofit charitable organization that has qualified under section 501(c)(3)
- 18 of the internal revenue code and that provides residential apartment housing
- 19 for low income persons over sixty-two years of age in a facility that
- 20 qualifies for a federal housing subsidy, if the tangible personal property is
- 21 used by the organization solely to provide residential apartment housing for
- 22 low income persons over sixty-two years of age in a facility that qualifies
- 23 for a federal housing subsidy.
- 24 26. Magazines or other periodicals or other publications by this state
- 25 to encourage tourist travel.
- 26 27. Tangible personal property sold to a person that is subject to tax
- 27 under this article by reason of being engaged in business classified under
- 28 the prime contracting classification under section 42-5075, ~~or~~ or to a
- 29 subcontractor working under the control of a prime contractor that is subject
- 30 to tax under article 1 of this chapter, if the property so sold is any of the
- 31 following:
- 32 (a) Incorporated or fabricated by the person into any real property,
- 33 structure, project, development or improvement as part of the business.
- 34 (b) Used in environmental response or remediation activities under
- 35 section 42-5075, subsection B, paragraph 6.
- 36 28. The sale of a motor vehicle to:
- 37 (a) A nonresident of this state if the purchaser's state of residence
- 38 does not allow a corresponding use tax exemption to the tax imposed by
- 39 article 1 of this chapter and if the nonresident has secured a special ninety
- 40 day nonresident registration permit for the vehicle as prescribed by sections
- 41 28-2154 and 28-2154.01.
- 42 (b) An enrolled member of an Indian tribe who resides on the Indian
- 43 reservation established for that tribe.
- 44 29. Tangible personal property purchased in this state by a nonprofit
- 45 charitable organization that has qualified under section 501(c)(3) of the

1 United States internal revenue code and that engages in and uses such
2 property exclusively in programs for mentally or physically handicapped
3 persons if the programs are exclusively for training, job placement,
4 rehabilitation or testing.

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

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

16 32. Sales of tangible personal property by a nonprofit organization
17 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),
18 501(c)(7) or 501(c)(8) of the internal revenue code if the organization
19 sponsors or operates a rodeo featuring primarily farm and ranch animals and
20 no part of the organization's net earnings inures to the benefit of any
21 private shareholder or individual.

22 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other
23 propagative material to persons who use those items to commercially produce
24 agricultural, horticultural, viticultural or floricultural crops in this
25 state.

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

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

34 ~~36.~~ 35. Sales of natural gas or liquefied petroleum gas used to propel
35 a motor vehicle.

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

39 ~~38.~~ 37. Coal, petroleum, coke, natural gas, virgin fuel oil and
40 electricity sold to a qualified environmental technology manufacturer,
41 producer or processor as defined in section 41-1514.02 and directly used or
42 consumed in the generation or provision of on-site power or energy solely for
43 environmental technology manufacturing, producing or processing or
44 environmental protection. This paragraph shall apply for twenty full
45 consecutive calendar or fiscal years from the date the first paper

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

5 ~~39-~~ 38. Sales of liquid, solid or gaseous chemicals used in
6 manufacturing, processing, fabricating, mining, refining, metallurgical
7 operations, research and development and, beginning on January 1, 1999,
8 printing, if using or consuming the chemicals, alone or as part of an
9 integrated system of chemicals, involves direct contact with the materials
10 from which the product is produced for the purpose of causing or permitting a
11 chemical or physical change to occur in the materials as part of the
12 production process. This paragraph does not include chemicals that are used
13 or consumed in activities such as packaging, storage or transportation but
14 does not affect any deduction for such chemicals that is otherwise provided
15 by this section. For the purposes of this paragraph, "printing" means a
16 commercial printing operation and includes job printing, engraving,
17 embossing, copying and bookbinding.

18 ~~40-~~ 39. Through December 31, 1994, personal property liquidation
19 transactions, conducted by a personal property liquidator. From and after
20 December 31, 1994, personal property liquidation transactions shall be
21 taxable under this section provided that nothing in this subsection shall be
22 construed to authorize the taxation of casual activities or transactions
23 under this chapter. For the purposes of this paragraph:

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

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

32 ~~41-~~ 40. Sales of food, drink and condiment for consumption within the
33 premises of any prison, jail or other institution under the jurisdiction of
34 the state department of corrections, the department of public safety, the
35 department of juvenile corrections or a county sheriff.

36 ~~42-~~ 41. A motor vehicle and any repair and replacement parts and
37 tangible personal property becoming a part of such motor vehicle sold to a
38 motor carrier who is subject to a fee prescribed in title 28, chapter 16,
39 article 4 and who is engaged in the business of leasing or renting such
40 property.

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

1 ~~44.~~ 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 ~~45.~~ 44. Sales of motor vehicles at auction to nonresidents of this
8 state for use outside this state if the vehicles are shipped or delivered out
9 of this state, regardless of where title to the motor vehicles passes or its
10 free on board point.

11 ~~46.~~ 45. Tangible personal property sold to a person engaged in
12 business and subject to tax under the transient lodging classification if the
13 tangible personal property is a personal hygiene item or articles used by
14 human beings for food, drink or condiment, except alcoholic beverages, that
15 are furnished without additional charge to and intended to be consumed by the
16 transient during the transient's occupancy.

17 ~~47.~~ 46. Sales of alternative fuel, as defined in section 1-215, to a
18 used oil fuel burner who has received a permit to burn used oil or used oil
19 fuel under section 49-426 or 49-480.

20 ~~48.~~ 47. Sales of materials that are purchased by or for publicly
21 funded libraries including school district libraries, charter school
22 libraries, community college libraries, state university libraries or
23 federal, state, county or municipal libraries for use by the public as
24 follows:

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

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

27 ~~49.~~ 48. Tangible personal property sold to 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 ~~50.~~ 49. Sales of alternative fuel vehicles if the vehicle was
36 manufactured as a diesel fuel vehicle and converted to operate on alternative
37 fuel and equipment that is installed in a conventional diesel fuel motor
38 vehicle to convert the vehicle to operate on an alternative fuel, as defined
39 in section 1-215.

40 ~~51.~~ 50. Sales of any spirituous, vinous or malt liquor by a person
41 that is licensed in this state as a wholesaler by the department of liquor
42 licenses and control pursuant to title 4, chapter 2, article 1.

43 ~~52.~~ 51. Sales of tangible personal property to be incorporated or
44 installed as part of environmental response or remediation activities under
45 section 42-5075, subsection B, paragraph 6.

1 ~~53.~~ 52. Sales of tangible personal property by a nonprofit
2 organization that is exempt from taxation under section 501(c)(6) of the
3 internal revenue code if the organization produces, organizes or promotes
4 cultural or civic related festivals or events and no part of the
5 organization's net earnings inures to the benefit of any private shareholder
6 or individual.

7 ~~54.~~ 53. Through August 31, 2014, sales of Arizona centennial
8 medallions by the historical advisory commission.

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

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

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

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

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

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

33 ~~59.~~ 58. Computer data center equipment purchased by the owner,
34 operator or qualified colocation tenant of the computer data center or an
35 authorized agent of the owner, operator or qualified colocation tenant during
36 the qualification period for use in a computer data center that is certified
37 by the Arizona commerce authority under section 41-1519. To qualify for this
38 deduction, at the time of purchase, the owner, operator or qualified
39 colocation tenant must present to the retailer its certificate that is issued
40 pursuant to section 41-1519 and that establishes its qualification for the
41 deduction. For the purposes of this paragraph, "computer data center",
42 "computer data center equipment", "qualification period" and "qualified
43 colocation tenant" have the same meanings prescribed in section 41-1519.

1 ~~60-~~ 59. Orthodontic devices dispensed by a dental professional who is
2 licensed under title 32, chapter 11 to a patient as part of the practice of
3 dentistry.

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

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

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

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

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

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

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

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

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

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

2 ~~(c) Persons who are not residents of this state and who will not use~~
3 ~~such property in this state other than in removing such property from this~~
4 ~~state. This subdivision also applies to corporations that are not~~
5 ~~incorporated in this state, regardless of maintaining a place of business in~~
6 ~~this state, if the principal corporate office is located outside this state~~
7 ~~and the property will not be used in this state other than in removing the~~
8 ~~property from this state.~~

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

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

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

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

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

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

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

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

39 14. Machinery or equipment used in research and development. For the
40 purposes of this paragraph, "research and development" means basic and
41 applied research in the sciences and engineering, and designing, developing
42 or testing prototypes, processes or new products, including research and
43 development of computer software that is embedded in or an integral part of
44 the prototype or new product or that is required for machinery or equipment
45 otherwise exempt under this section to function effectively. Research and

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

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

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

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

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

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

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

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

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

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

43 17. Machinery and equipment used directly in the feeding of poultry,
44 the environmental control of housing for poultry, the movement of eggs within

1 a production and packaging facility or the sorting or cooling of eggs. This
2 exemption does not apply to vehicles used for transporting eggs.

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

13 19. Machinery and equipment that are sold to a person engaged in the
14 commercial production of livestock, livestock products or agricultural,
15 horticultural, viticultural or floricultural crops or products in this state
16 and that are used directly and primarily to prevent, monitor, control or
17 reduce air, water or land pollution.

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

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

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

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

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

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

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

44 2. Janitorial equipment and hand tools.

45 3. Office equipment, furniture and supplies.

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

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

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

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

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

13 D. In addition to the deductions from the tax base prescribed by
14 subsection A of this section, there shall be deducted from the tax base the
15 gross proceeds of sales or gross income derived from sales of machinery,
16 equipment, materials and other tangible personal property used directly and
17 predominantly to construct a qualified environmental technology
18 manufacturing, producing or processing facility as described in section
19 41-1514.02. This subsection applies for ten full consecutive calendar or
20 fiscal years after the start of initial construction.

21 E. In computing the tax base, gross proceeds of sales or gross income
22 from retail sales of heavy trucks and trailers does not include any amount
23 attributable to federal excise taxes imposed by 26 United States Code section
24 4051.

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

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

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

41 I. A person who engages in manufacturing, baling, crating, boxing,
42 barreling, canning, bottling, sacking, preserving, processing or otherwise
43 preparing for sale or commercial use any livestock, agricultural or
44 horticultural product or any other product, article, substance or commodity
45 and who sells the product of such business at retail in this state is deemed,

1 as to such sales, to be engaged in business classified under the retail
2 classification. This subsection does not apply to businesses classified
3 under the:

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

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

- 16 1. Sales made directly to the United States government or its
17 departments or agencies by a manufacturer, modifier, assembler or repairer.
- 18 2. Sales made directly to a manufacturer, modifier, assembler or
19 repairer if such sales are of any ingredient or component part of products
20 sold directly to the United States government or its departments or agencies
21 by the manufacturer, modifier, assembler or repairer.
- 22 3. Overhead materials or other tangible personal property that is used
23 in performing a contract between the United States government and a
24 manufacturer, modifier, assembler or repairer, including property used in
25 performing a subcontract with a government contractor who is a manufacturer,
26 modifier, assembler or repairer, to which title passes to the government
27 under the terms of the contract or subcontract.
- 28 4. Sales of overhead materials or other tangible personal property to
29 a manufacturer, modifier, assembler or repairer if the gross proceeds of
30 sales or gross income derived from the property by the manufacturer,
31 modifier, assembler or repairer will be exempt under paragraph 3 of this
32 subsection.

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

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

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

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

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

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

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

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

19 Q. Retail sales of prepaid calling cards or prepaid authorization
20 numbers for telecommunications services, including sales of reauthorization
21 of a prepaid card or authorization number, are subject to tax under this
22 section.

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

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

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

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

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

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

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

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

21 V. For the purposes of this section:

22 1. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

12 6. "Subcontract" means an agreement between a contractor and any
13 person who is not an employee of the contractor for furnishing of supplies or
14 services that, in whole or in part, are necessary to the performance of one
15 or more government contracts, or under which any portion of the contractor's
16 obligation under one or more government contracts is performed, undertaken or
17 assumed and that includes provisions causing title to overhead materials or
18 other tangible personal property used in the performance of the subcontract
19 to pass to the government or that includes provisions incorporating such
20 title passing clauses in a government contract into the subcontract. **FOR THE
21 PURPOSES OF THIS PARAGRAPH, "CONTRACTOR" HAS ITS ORDINARY AND COMMON MEANING
22 AND DOES NOT HAVE THE MEANING PRESCRIBED BY SECTION 42-5001.**

23 Sec. 12. Delayed repeal

24 Section **42-5061**, Arizona Revised Statutes, as amended by Laws 2013,
25 chapter 255, section 13, is repealed effective from and after December 31,
26 2014.

27 Sec. 13. Section 42-5062, Arizona Revised Statutes, is amended
28 effective from and after December 31, 2014, to read:

29 **42-5062. Transporting classification**

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

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

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

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

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

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

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

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

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

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

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

41 4. The gross proceeds of sales or gross income derived from business
42 activity that is arranged by a person who is subject to tax under this
43 section and that is taxable to another person under this section who conducts
44 the activity, but the gross proceeds of sales or gross income to be deducted

1 shall not exceed the consideration paid to the person conducting the
2 activity.

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

6 Sec. 14. Section 42-5159, Arizona Revised Statutes, as amended by Laws
7 2013, first special session, chapter 9, section 7, is amended effective from
8 and after December 31, 2014, to read:

9 42-5159. Exemptions

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

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

16 2. Tangible personal property the sale or use of which has already
17 been subjected to an excise tax at a rate equal to or exceeding the tax
18 imposed by this article under the laws of another state of the United States.
19 If the excise tax imposed by the other state is at a rate less than the tax
20 imposed by this article, the tax imposed by this article is reduced by the
21 amount of the tax already imposed by the other state.

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

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

30 5. Motor vehicle fuel and use fuel, the sales, distribution or use of
31 which in this state is subject to the tax imposed under title 28, chapter 16,
32 article 1, use fuel ~~which~~ THAT is sold to or used by a person holding a valid
33 single trip use fuel tax permit issued under section 28-5739, aviation fuel,
34 the sales, distribution or use of which in this state is subject to the tax
35 imposed under section 28-8344, and jet fuel, the sales, distribution or use
36 of which in this state is subject to the tax imposed under article 8 of this
37 chapter.

38 6. Tangible personal property brought into this state by an individual
39 who was a nonresident at the time the property was purchased for storage, use
40 or consumption by the individual if the first actual use or consumption of
41 the property was outside this state, unless the property is used in
42 conducting a business in this state.

43 7. Purchases of implants used as growth promotants and injectable
44 medicines, not already exempt under paragraph 16 of this subsection, for
45 livestock and poultry owned by, or in possession of, persons who are engaged

1 in producing livestock, poultry, or livestock or poultry products, or who are
2 engaged in feeding livestock or poultry commercially. For the purposes of
3 this paragraph, "poultry" includes ratites.

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

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

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

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

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

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

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

25 13. Tangible personal property purchased by:

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

29 (b) A hospital operated by this state or a political subdivision of
30 this state.

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

36 (d) A qualifying health care organization, as defined in section
37 42-5001, if the tangible personal property is used by the organization solely
38 to provide health and medical related educational and charitable services.

39 (e) A qualifying health care organization as defined in section
40 42-5001 if the organization is dedicated to providing educational,
41 therapeutic, rehabilitative and family medical education training for blind,
42 visually impaired and multihandicapped children from the time of birth to age
43 twenty-one.

44 (f) A nonprofit charitable organization that has qualified under
45 section 501(c)(3) of the United States internal revenue code and that engages

1 in and uses such property exclusively in programs for mentally or physically
2 handicapped persons if the programs are exclusively for training, job
3 placement, rehabilitation or testing.

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

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

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

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

17 (i) A qualifying community health center as defined in section
18 42-5001.

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

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

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

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

40 15. Tangible personal property sold by:

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

44 (b) A nonprofit organization that is exempt from taxation under
45 section 501(c)(3) or 501(c)(6) of the internal revenue code if the

1 organization is associated with a major league baseball team or a national
2 touring professional golfing association and no part of the organization's
3 net earnings inures to the benefit of any private shareholder or individual.

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

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

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

16 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

43 27. Lottery tickets or shares purchased pursuant to title 5, chapter
44 5.1, article 1.

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

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

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

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

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

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

23 (b) Public educational institutions.

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

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

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

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

1 operation and includes job printing, engraving, embossing, copying and
2 bookbinding.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 50. Application services that are designed to assess or test student
44 learning or to promote curriculum design or enhancement purchased by or for

1 any school district, charter school, community college or state university.
2 For the purposes of this paragraph:

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

5 (b) "Curriculum design or enhancement" means planning, implementing or
6 reporting on courses of study, lessons, assignments or other learning
7 activities.

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

12 52. Repair parts installed in equipment used directly by a qualified
13 business under section 41-1516 in harvesting, processing or transporting
14 qualifying forest products removed from qualifying projects as defined in
15 section 41-1516.

16 53. Renewable energy credits or any other unit created to track energy
17 derived from renewable energy resources. For the purposes of this paragraph,
18 "renewable energy credit" means a unit created administratively by the
19 corporation commission or governing body of a public power entity to track
20 kilowatt hours of electricity derived from a renewable energy resource or the
21 kilowatt hour equivalent of conventional energy resources displaced by
22 distributed renewable energy resources.

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

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

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

44 2. Machinery, or equipment, used directly in the process of extracting
45 ores or minerals from the earth for commercial purposes, including equipment

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

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

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

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

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

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

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

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

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

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

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

42 11. Buses or other urban mass transit vehicles ~~which~~ ~~THAT~~ are used
43 directly to transport persons or property for hire or pursuant to a
44 governmentally adopted and controlled urban mass transportation program and
45 ~~which~~ ~~THAT~~ are sold to bus companies holding a federal certificate of

1 convenience and necessity or operated by any city, town or other governmental
2 entity or by any person contracting with such governmental entity as part of
3 a governmentally adopted and controlled program to provide urban mass
4 transportation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

41 20. Machinery or equipment that enables a television station to
42 originate and broadcast or to receive and broadcast digital television
43 signals and that was purchased to facilitate compliance with the
44 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States
45 Code section 336) and the federal communications commission order issued

1 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does
2 not exempt any of the following:

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

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

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

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

16 C. The exemptions provided by subsection B of this section do not
17 include:

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

22 2. Janitorial equipment and hand tools.

23 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

43 2. Revenues received from providing electricity, including ancillary
44 services, electric distribution services, electric generation services,
45 electric transmission services and other services related to providing

1 electricity with respect to which the transaction privilege tax imposed under
2 section 42-5063 has been paid.

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

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

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

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

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

19 1. "Aircraft" includes:

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

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

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

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

33 Sec. 15. Delayed repeal

34 Section 42-5159, Arizona Revised Statutes, as amended by Laws 2013,
35 chapter 255, section 17, is repealed effective from and after December 31,
36 2014.