

REFERENCE TITLE: TPT; health sciences institutions; exemption

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

HB 2701

Introduced by
Representative Olson

AN ACT

AMENDING SECTION 42-5001, 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; REPEALING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 13; AMENDING SECTIONS 42-5065 AND 42-5066, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 7; REPEALING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 17; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST REGULAR SESSION, CHAPTER 27, SECTION 2, CHAPTER 120, SECTION 2, CHAPTER 153, SECTION 2 AND CHAPTER 236, SECTION 6 AND LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 8; REPEALING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 20; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

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

4 42-5001. Definitions

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

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

10 (a) Casual activities or sales.

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

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

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

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

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

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

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

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

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

3 9. "Qualifying community health center":

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

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

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

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

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

24 11. "QUALIFYING HEALTH SCIENCES EDUCATIONAL INSTITUTION" MEANS AN
25 ENTITY THAT IS RECOGNIZED AS NONPROFIT UNDER SECTION 501(c) OF THE UNITED
26 STATES INTERNAL REVENUE CODE AND THAT SOLELY PROVIDES GRADUATE AND
27 POSTGRADUATE EDUCATION IN THE HEALTH SCIENCES. FOR THE PURPOSES OF THIS
28 PARAGRAPH, "HEALTH SCIENCES" INCLUDES MEDICINE, NURSING, PHYSICIAN'S
29 ASSISTANT STUDIES, PHARMACY, PHYSICAL THERAPY, OCCUPATIONAL THERAPY,
30 BIOMEDICAL SCIENCES, PODIATRY, CLINICAL PSYCHOLOGY, CARDIOVASCULAR SCIENCE,
31 NURSE ANESTHESIA, DENTISTRY, OPTOMETRY AND VETERINARY MEDICINE.

32 ~~11.~~ 12. "Qualifying hospital" means any of the following:

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

36 (b) A licensed nursing care institution or a licensed residential care
37 institution or a residential care facility operated in conjunction with a
38 licensed nursing care institution or a licensed kidney dialysis center, which
39 provides medical services, nursing services or health related services and is
40 not used or held for profit.

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

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

1 ~~12.~~ 13. "Retailer" includes every person engaged in the business
2 classified under the retail classification pursuant to section 42-5061 and,
3 when in the opinion of the department it is necessary for the efficient
4 administration of this article, includes dealers, distributors, supervisors,
5 employers and salesmen, representatives, peddlers or canvassers as the agents
6 of the dealers, distributors, supervisors or employers under whom they
7 operate or from whom they obtain the tangible personal property sold by them,
8 whether in making sales on their own behalf or on behalf of the dealers,
9 distributors, supervisors or employers.

10 ~~13.~~ 14. "Sale" means any transfer of title or possession, or both,
11 exchange, barter, lease or rental, conditional or otherwise, in any manner or
12 by any means whatever, including consignment transactions and auctions, of
13 tangible personal property or other activities taxable under this chapter,
14 for a consideration, and includes:

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

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

19 (c) Furnishing, preparing or serving for a consideration any tangible
20 personal property consumed on the premises of the person furnishing,
21 preparing or serving the tangible personal property.

22 ~~14.~~ 15. "Solar daylighting" means a device that is specifically
23 designed to capture and redirect the visible portion of the solar beam, while
24 controlling the infrared portion, for use in illuminating interior building
25 spaces in lieu of artificial lighting.

26 ~~15.~~ 16. "Solar energy device" means a system or series of mechanisms
27 designed primarily to provide heating, to provide cooling, to produce
28 electrical power, to produce mechanical power, to provide solar daylighting
29 or to provide any combination of the foregoing by means of collecting and
30 transferring solar generated energy into such uses either by active or
31 passive means, including wind generator systems that produce electricity.
32 Solar energy systems may also have the capability of storing solar energy for
33 future use. Passive systems shall clearly be designed as a solar energy
34 device, such as a trombe wall, and not merely as a part of a normal
35 structure, such as a window.

36 ~~16.~~ 17. "Tangible personal property" means personal property which may
37 be seen, weighed, measured, felt or touched or is in any other manner
38 perceptible to the senses.

39 ~~17.~~ 18. "Tax year" or "taxable year" means either the calendar year or
40 the taxpayer's fiscal year, if permission is obtained from the department to
41 use a fiscal year as the tax period instead of the calendar year.

42 ~~18.~~ 19. "Taxpayer" means any person who is liable for any tax which is
43 imposed by this article.

44 ~~19.~~ 20. "Wholesaler" or "jobber" means any person who sells tangible
45 personal property for resale and not for consumption by the purchaser.

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

5 42-5061. Retail classification; definitions

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

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

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

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

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

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

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

28 7. The sale of stocks and bonds.

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

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

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

36 11. Prescription eyeglasses or contact lenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 25. Tangible personal property sold to:

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

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

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

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

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

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

43 (g) A QUALIFYING HEALTH SCIENCES EDUCATIONAL INSTITUTION AS DEFINED IN
44 SECTION 42-5001.

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

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

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

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

13 28. The sale of a motor vehicle to:

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

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

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

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

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

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

44 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other
45 propagative material to persons who use those items to commercially produce

1 agricultural, horticultural, viticultural or floricultural crops in this
2 state.

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

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

11 ~~36.~~ 35. Sales of natural gas or liquefied petroleum gas used to propel
12 a motor vehicle.

13 ~~37.~~ 36. Paper machine clothing, such as forming fabrics and dryer
14 felts, sold to a paper manufacturer and directly used or consumed in paper
15 manufacturing.

16 ~~38.~~ 37. Coal, petroleum, coke, natural gas, virgin fuel oil and
17 electricity sold to a qualified environmental technology manufacturer,
18 producer or processor as defined in section 41-1514.02 and directly used or
19 consumed in the generation or provision of on-site power or energy solely for
20 environmental technology manufacturing, producing or processing or
21 environmental protection. This paragraph shall apply for twenty full
22 consecutive calendar or fiscal years from the date the first paper
23 manufacturing machine is placed in service. In the case of an environmental
24 technology manufacturer, producer or processor who does not manufacture
25 paper, the time period shall begin with the date the first manufacturing,
26 processing or production equipment is placed in service.

27 ~~39.~~ 38. Sales of liquid, solid or gaseous chemicals used in
28 manufacturing, processing, fabricating, mining, refining, metallurgical
29 operations, research and development and, beginning on January 1, 1999,
30 printing, if using or consuming the chemicals, alone or as part of an
31 integrated system of chemicals, involves direct contact with the materials
32 from which the product is produced for the purpose of causing or permitting a
33 chemical or physical change to occur in the materials as part of the
34 production process. This paragraph does not include chemicals that are used
35 or consumed in activities such as packaging, storage or transportation but
36 does not affect any deduction for such chemicals that is otherwise provided
37 by this section. For the purposes of this paragraph, "printing" means a
38 commercial printing operation and includes job printing, engraving,
39 embossing, copying and bookbinding.

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

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

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

9 ~~41.~~ 40. Sales of food, drink and condiment for consumption within the
10 premises of any prison, jail or other institution under the jurisdiction of
11 the state department of corrections, the department of public safety, the
12 department of juvenile corrections or a county sheriff.

13 ~~42.~~ 41. A motor vehicle and any repair and replacement parts and
14 tangible personal property becoming a part of such motor vehicle sold to a
15 motor carrier who is subject to a fee prescribed in title 28, chapter 16,
16 article 4 and who is engaged in the business of leasing or renting such
17 property.

18 ~~43.~~ 42. Livestock and poultry feed, salts, vitamins and other
19 additives for livestock or poultry consumption that are sold to persons who
20 are engaged in producing livestock, poultry, or livestock or poultry products
21 or who are engaged in feeding livestock or poultry commercially. For the
22 purposes of this paragraph, "poultry" includes ratites.

23 ~~44.~~ 43. Sales of implants used as growth promotants and injectable
24 medicines, not already exempt under paragraph 8 of this subsection, for
25 livestock or poultry owned by or in possession of persons who are engaged in
26 producing livestock, poultry, or livestock or poultry products or who are
27 engaged in feeding livestock or poultry commercially. For the purposes of
28 this paragraph, "poultry" includes ratites.

29 ~~45.~~ 44. Sales of motor vehicles at auction to nonresidents of this
30 state for use outside this state if the vehicles are shipped or delivered out
31 of this state, regardless of where title to the motor vehicles passes or its
32 free on board point.

33 ~~46.~~ 45. Tangible personal property sold to a person engaged in
34 business and subject to tax under the transient lodging classification if the
35 tangible personal property is a personal hygiene item or articles used by
36 human beings for food, drink or condiment, except alcoholic beverages, that
37 are furnished without additional charge to and intended to be consumed by the
38 transient during the transient's occupancy.

39 ~~47.~~ 46. Sales of alternative fuel, as defined in section 1-215, to a
40 used oil fuel burner who has received a permit to burn used oil or used oil
41 fuel under section 49-426 or 49-480.

42 ~~48.~~ 47. Sales of materials that are purchased by or for publicly
43 funded libraries including school district libraries, charter school
44 libraries, community college libraries, state university libraries or

1 federal, state, county or municipal libraries for use by the public as
2 follows:

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

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

5 ~~49-~~ 48. Tangible personal property sold to a commercial airline and
6 consisting of food, beverages and condiments and accessories used for serving
7 the food and beverages, if those items are to be provided without additional
8 charge to passengers for consumption in flight. For the purposes of this
9 paragraph, "commercial airline" means a person holding a federal certificate
10 of public convenience and necessity or foreign air carrier permit for air
11 transportation to transport persons, property or United States mail in
12 intrastate, interstate or foreign commerce.

13 ~~50-~~ 49. Sales of alternative fuel vehicles if the vehicle was
14 manufactured as a diesel fuel vehicle and converted to operate on alternative
15 fuel and equipment that is installed in a conventional diesel fuel motor
16 vehicle to convert the vehicle to operate on an alternative fuel, as defined
17 in section 1-215.

18 ~~51-~~ 50. Sales of any spirituous, vinous or malt liquor by a person
19 that is licensed in this state as a wholesaler by the department of liquor
20 licenses and control pursuant to title 4, chapter 2, article 1.

21 ~~52-~~ 51. Sales of tangible personal property to be incorporated or
22 installed as part of environmental response or remediation activities under
23 section 42-5075, subsection B, paragraph 6.

24 ~~53-~~ 52. Sales of tangible personal property by a nonprofit
25 organization that is exempt from taxation under section 501(c)(6) of the
26 internal revenue code if the organization produces, organizes or promotes
27 cultural or civic related festivals or events and no part of the
28 organization's net earnings inures to the benefit of any private shareholder
29 or individual.

30 ~~54-~~ 53. Through August 31, 2014, sales of Arizona centennial
31 medallions by the historical advisory commission.

32 ~~55-~~ 54. Application services that are designed to assess or test
33 student learning or to promote curriculum design or enhancement purchased by
34 or for any school district, charter school, community college or state
35 university. For the purposes of this paragraph:

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

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

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

1 ~~57.~~ 56. Sales of repair parts installed in equipment used directly by
2 a qualified business under section 41-1516 in harvesting, processing or
3 transporting qualifying forest products removed from qualifying projects as
4 defined in section 41-1516.

5 ~~58.~~ 57. Sales or other transfers of renewable energy credits or any
6 other unit created to track energy derived from renewable energy resources.
7 For the purposes of this paragraph, "renewable energy credit" means a unit
8 created administratively by the corporation commission or governing body of a
9 public power utility to track kilowatt hours of electricity derived from a
10 renewable energy resource or the kilowatt hour equivalent of conventional
11 energy resources displaced by distributed renewable energy resources.

12 ~~59.~~ 58. Computer data center equipment purchased by the owner,
13 operator or qualified colocation tenant of the computer data center or an
14 authorized agent of the owner, operator or qualified colocation tenant during
15 the qualification period for use in a computer data center that is certified
16 by the Arizona commerce authority under section 41-1519. To qualify for this
17 deduction, at the time of purchase, the owner, operator or qualified
18 colocation tenant must present to the retailer its certificate that is issued
19 pursuant to section 41-1519 and that establishes its qualification for the
20 deduction. For the purposes of this paragraph, "computer data center",
21 "computer data center equipment", "qualification period" and "qualified
22 colocation tenant" have the same meanings prescribed in section 41-1519.

23 ~~60.~~ 59. Orthodontic devices dispensed by a dental professional who is
24 licensed under title 32, chapter 11 to a patient as part of the practice of
25 dentistry.

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

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

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

43 3. Tangible personal property sold to persons engaged in business
44 classified under the telecommunications classification and consisting of
45 central office switching equipment, switchboards, private branch exchange

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

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

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

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

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

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

23 (b) Any foreign government.

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

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

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

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

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

1 a governmentally adopted and controlled program to provide urban mass
2 transportation.

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

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

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

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

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

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

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

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

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

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

44 For the purposes of subdivision (b) of this paragraph, "test period" means
45 the three hundred sixty-five day period beginning on the later of the date on

1 which the tangible personal property is purchased or the date on which the
2 direct broadcast satellite television or data transmission service first
3 transmits information to its customers.

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

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

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

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

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

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

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

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

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

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

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

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

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

20 2. Janitorial equipment and hand tools.

21 3. Office equipment, furniture and supplies.

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

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

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

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

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

34 D. In addition to the deductions from the tax base prescribed by
35 subsection A of this section, there shall be deducted from the tax base the
36 gross proceeds of sales or gross income derived from sales of machinery,
37 equipment, materials and other tangible personal property used directly and
38 predominantly to construct a qualified environmental technology
39 manufacturing, producing or processing facility as described in section
40 41-1514.02. This subsection applies for ten full consecutive calendar or
41 fiscal years after the start of initial construction.

42 E. In computing the tax base, gross proceeds of sales or gross income
43 from retail sales of heavy trucks and trailers does not include any amount
44 attributable to federal excise taxes imposed by 26 United States Code section
45 4051.

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

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

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

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

- 25 1. Transporting classification.
- 26 2. Utilities classification.
- 27 3. Telecommunications classification.
- 28 4. Pipeline classification.
- 29 5. Private car line classification.
- 30 6. Publication classification.
- 31 7. Job printing classification.
- 32 8. Prime contracting classification.
- 33 ~~9. Owner builder sales classification.~~
- 34 ~~10.~~ 9. Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 V. For the purposes of this section:
2 1. "Aircraft" includes:
3 (a) An airplane flight simulator that is approved by the federal
4 aviation administration for use as a phase II or higher flight simulator
5 under appendix H, 14 Code of Federal Regulations part 121.
6 (b) Tangible personal property that is permanently affixed or attached
7 as a component part of an aircraft that is owned or operated by a
8 certificated or licensed carrier of persons or property.
9 2. "Other accessories and related equipment" includes aircraft
10 accessories and equipment such as ground service equipment that physically
11 contact aircraft at some point during the overall carrier operation.
12 3. "Selling at retail" means a sale for any purpose other than for
13 resale in the regular course of business in the form of tangible personal
14 property, but transfer of possession, lease and rental as used in the
15 definition of sale mean only such transactions as are found on investigation
16 to be in lieu of sales as defined without the words lease or rental.
17 W. For the purposes of subsection J of this section:
18 1. "Assembler" means a person who unites or combines products, wares
19 or articles of manufacture so as to produce a change in form or substance
20 without changing or altering the component parts.
21 2. "Manufacturer" means a person who is principally engaged in the
22 fabrication, production or manufacture of products, wares or articles for use
23 from raw or prepared materials, imparting to those materials new forms,
24 qualities, properties and combinations.
25 3. "Modifier" means a person who reworks, changes or adds to products,
26 wares or articles of manufacture.
27 4. "Overhead materials" means tangible personal property, the gross
28 proceeds of sales or gross income derived from that would otherwise be
29 included in the retail classification, and that are used or consumed in the
30 performance of a contract, the cost of which is charged to an overhead
31 expense account and allocated to various contracts based on generally
32 accepted accounting principles and consistent with government contract
33 accounting standards.
34 5. "Repairer" means a person who restores or renews products, wares or
35 articles of manufacture.
36 6. "Subcontract" means an agreement between a contractor and any
37 person who is not an employee of the contractor for furnishing of supplies or
38 services that, in whole or in part, are necessary to the performance of one
39 or more government contracts, or under which any portion of the contractor's
40 obligation under one or more government contracts is performed, undertaken or
41 assumed and that includes provisions causing title to overhead materials or
42 other tangible personal property used in the performance of the subcontract
43 to pass to the government or that includes provisions incorporating such
44 title passing clauses in a government contract into the subcontract. FOR THE

1 PURPOSES OF THIS PARAGRAPH, "CONTRACTOR" HAS ITS ORDINARY AND COMMON MEANING
2 AND DOES NOT HAVE THE MEANING PRESCRIBED BY SECTION 42-5001.

3 Sec. 3. Repeal

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

6 Sec. 4. Section 42-5065, Arizona Revised Statutes, is amended to read:
7 42-5065. Publication classification; definition

8 A. The publication classification is comprised of the business of
9 publishing newspapers, magazines or other periodicals and publications if
10 published in this state. The publication classification does not include:

11 1. Manufacturing or publishing books.

12 2. Sales of magazines or other periodicals or other publications by
13 this state to encourage tourist travel.

14 B. The tax base for the publication classification is the gross
15 proceeds of sales or gross income derived from the business, including the
16 gross income derived from notices and subscription income, but the following
17 shall be deducted from the tax base:

18 1. Gross income derived from advertising.

19 2. Gross proceeds of sales or gross income derived from sales of
20 personal property to:

21 (a) Qualifying hospitals as defined in section 42-5001.

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

25 (c) A QUALIFYING HEALTH SCIENCES EDUCATIONAL INSTITUTION AS DEFINED IN
26 SECTION 42-5001.

27 C. For purposes of this section "subscription income" includes all
28 circulation revenue, except amounts actually retained by or credited to
29 carriers and other vendors as compensation for sale or delivery of
30 publications and revenue from publications sold, directly or through
31 wholesalers or jobbers, to retailers for resale.

32 Sec. 5. Section 42-5066, Arizona Revised Statutes, is amended to read:
33 42-5066. Job printing classification

34 A. The job printing classification is comprised of the business of job
35 printing, engraving, embossing and copying.

36 B. The tax base for the job printing classification is the gross
37 proceeds of sales or gross income derived from the business, but the gross
38 proceeds of sales or gross income derived from the following shall be
39 deducted from the tax base:

40 1. Sales to a person in this state who has a transaction privilege tax
41 license issued in this state, and who does either of the following:

42 (a) Resells the job printing, engraving, embossing or copying.

43 (b) Distributes such printing, engraving, embossing or copying without
44 consideration in connection with the publication of a newspaper or magazine.

1 2. Sales of job printing, engraving, embossing and copying for use
2 outside this state if the materials are shipped or delivered out of this
3 state regardless of where title to the materials passes or their free on
4 board point.

5 3. Sales of personal property to:

6 (a) Qualifying hospitals as defined in section 42-5001.

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

10 (c) A QUALIFYING HEALTH SCIENCES EDUCATIONAL INSTITUTION AS DEFINED IN
11 SECTION 42-5001.

12 4. Sales of postage and freight except that the amount deducted shall
13 not exceed the actual postage and freight expense that is paid to the United
14 States postal service or a commercial delivery service and that is separately
15 itemized by the taxpayer on the customer's invoice and in the taxpayer's
16 records.

17 Sec. 6. Section 42-5159, Arizona Revised Statutes, as amended by Laws
18 2013, first special session, chapter 9, section 7, is amended to read:

19 42-5159. Exemptions

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

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

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

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

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

40 5. Motor vehicle fuel and use fuel, the sales, distribution or use of
41 which in this state is subject to the tax imposed under title 28, chapter 16,
42 article 1, use fuel ~~which~~ THAT is sold to or used by a person holding a valid
43 single trip use fuel tax permit issued under section 28-5739, aviation fuel,
44 the sales, distribution or use of which in this state is subject to the tax
45 imposed under section 28-8344, and jet fuel, the sales, distribution or use

1 of which in this state is subject to the tax imposed under article 8 of this
2 chapter.

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

8 7. Purchases of implants used as growth promotants and injectable
9 medicines, not already exempt under paragraph 16 of this subsection, for
10 livestock and poultry owned by, or in possession of, persons who are engaged
11 in producing livestock, poultry, or livestock or poultry products, or who are
12 engaged in feeding livestock or poultry commercially. For the purposes of
13 this paragraph, "poultry" includes ratites.

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

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

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

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

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

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

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

35 13. Tangible personal property purchased by:

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

39 (b) A hospital operated by this state or a political subdivision of
40 this state.

41 (c) A licensed nursing care institution or a licensed residential care
42 institution or a residential care facility operated in conjunction with a
43 licensed nursing care institution or a licensed kidney dialysis center, which
44 provides medical services, nursing services or health related services and is
45 not used or held for profit.

1 (d) A qualifying health care organization, as defined in section
2 42-5001, if the tangible personal property is used by the organization solely
3 to provide health and medical related educational and charitable services.

4 (e) A qualifying health care organization as defined in section
5 42-5001 if the organization is dedicated to providing educational,
6 therapeutic, rehabilitative and family medical education training for blind,
7 visually impaired and multihandicapped children from the time of birth to age
8 twenty-one.

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

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

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

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

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

27 (i) A qualifying community health center as defined in section
28 42-5001.

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

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

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

1 (m) A QUALIFYING HEALTH SCIENCES EDUCATIONAL INSTITUTION AS DEFINED IN
2 SECTION 42-5001.

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

8 15. Tangible personal property sold by:

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

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

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

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

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

29 18. Prescription eyeglasses and contact lenses.

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

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

32 21. Durable medical equipment ~~which~~ THAT has a centers for medicare and
33 medicaid services common procedure code, is designated reimbursable by
34 medicare, is prescribed by a person who is licensed under title 32, chapter
35 7, 13, 17 or 29, can withstand repeated use, is primarily and customarily
36 used to serve a medical purpose, is generally not useful to a person in the
37 absence of illness or injury and is appropriate for use in the home.

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

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

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

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

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

12 27. Lottery tickets or shares purchased pursuant to title 5, chapter
13 5.1, article 1.

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

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

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

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

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

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

36 (b) Public educational institutions.

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

40 33. Natural gas or liquefied petroleum gas used to propel a motor
41 vehicle.

42 34. Machinery, equipment, technology or related supplies that are only
43 useful to assist a person who is physically disabled as defined in section
44 46-191, has a developmental disability as defined in section 36-551 or has a

1 head injury as defined in section 41-3201 to be more independent and
2 functional.

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

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

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

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

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

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

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

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

5 40. Through December 31, 1994, tangible personal property sold pursuant
6 to a personal property liquidation transaction, as defined in section
7 42-5061. From and after December 31, 1994, tangible personal property sold
8 pursuant to a personal property liquidation transaction, as defined in
9 section 42-5061, if the gross proceeds of the sales were included in the
10 measure of the tax imposed by article 1 of this chapter or if the personal
11 property liquidation was a casual activity or transaction.

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

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

18 43. Tangible personal property purchased by a commercial airline and
19 consisting of food, beverages and condiments and accessories used for serving
20 the food and beverages, if those items are to be provided without additional
21 charge to passengers for consumption in flight. For the purposes of this
22 paragraph, "commercial airline" means a person holding a federal certificate
23 of public convenience and necessity or foreign air carrier permit for air
24 transportation to transport persons, property or United States mail in
25 intrastate, interstate or foreign commerce.

26 44. Alternative fuel vehicles if the vehicle was manufactured as a
27 diesel fuel vehicle and converted to operate on alternative fuel and
28 equipment that is installed in a conventional diesel fuel motor vehicle to
29 convert the vehicle to operate on an alternative fuel, as defined in section
30 1-215.

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

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

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

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

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

44 48. Tangible personal property sold by a nonprofit organization that is
45 exempt from taxation under section 501(c)(6) of the internal revenue code if

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

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

9 50. Application services that are designed to assess or test student
10 learning or to promote curriculum design or enhancement purchased by or for
11 any school district, charter school, community college or state university.
12 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 51. Motor vehicle fuel and use fuel to a qualified business under
19 section 41-1516 for off-road use in harvesting, processing or transporting
20 qualifying forest products removed from qualifying projects as defined in
21 section 41-1516.

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

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

33 54. Computer data center equipment purchased by the owner, operator or
34 qualified colocation tenant of the computer data center or an authorized
35 agent of the owner, operator or qualified colocation tenant during the
36 qualification period for use in a computer data center that is certified by
37 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 B. In addition to the exemptions allowed by subsection A of this
2 section, the following categories of tangible personal property are also
3 exempt:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

39 18. Machinery or equipment, including related structural components,
40 that is employed in connection with manufacturing, processing, fabricating,
41 job printing, refining, mining, natural gas pipelines, metallurgical
42 operations, telecommunications, producing or transmitting electricity or
43 research and development and that is used directly to meet or exceed rules or
44 regulations adopted by the federal energy regulatory commission, the United
45 States environmental protection agency, the United States nuclear regulatory

1 commission, the Arizona department of environmental quality or a political
2 subdivision of this state to prevent, monitor, control or reduce land, water
3 or air pollution.

4 19. Machinery and equipment that are used in the commercial production
5 of livestock, livestock products or agricultural, horticultural, viticultural
6 or floricultural crops or products in this state and that are used directly
7 and primarily to prevent, monitor, control or reduce air, water or land
8 pollution.

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

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

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

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

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

29 C. The exemptions provided by subsection B of this section do not
30 include:

31 1. Expendable materials. For the purposes of this paragraph,
32 expendable materials do not include any of the categories of tangible
33 personal property specified in subsection B of this section regardless of the
34 cost or useful life of that property.

35 2. Janitorial equipment and hand tools.

36 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

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

32 1. "Aircraft" includes:

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

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

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

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

1 Sec. 7. Repeal
2 Section 42-5159, Arizona Revised Statutes, as amended by Laws 2013,
3 chapter 255, section 17, is repealed.

4 Sec. 8. Section 42-6004, Arizona Revised Statutes, as amended by Laws
5 2013, first regular session, chapter 27, section 2, chapter 120, section 2,
6 chapter 153, section 2 and chapter 236, section 6 and Laws 2013, first
7 special session, chapter 9, section 8, is amended to read:

8 42-6004. Exemption from municipal tax

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

11 1. Exhibition events in this state sponsored, conducted or operated by
12 a nonprofit organization that is exempt from taxation under section
13 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the
14 organization is associated with a major league baseball team or a national
15 touring professional golfing association and no part of the organization's
16 net earnings inures to the benefit of any private shareholder or individual.

17 2. Interstate telecommunications services, which include that portion
18 of telecommunications services, such as subscriber line service, allocable by
19 federal law to interstate telecommunications service.

20 3. Sales of warranty or service contracts.

21 4. Sales of motor vehicles to nonresidents of this state for use
22 outside this state if the ~~vendor~~ MOTOR VEHICLE DEALER ships or delivers the
23 motor vehicle to a destination outside this state.

24 5. Interest on finance contracts.

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

26 7. Sales of food or other items purchased with United States
27 department of agriculture food stamp coupons issued under the food stamp act
28 of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under section
29 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661,
30 section 4302; 42 United States Code section 1786) but may impose such a tax
31 on other sales of food. If a city, town or special taxing district exempts
32 sales of food from its tax or imposes a different transaction privilege rate
33 on the gross proceeds of sales or gross income from sales of food and nonfood
34 items, it shall use the definition of food prescribed by rule adopted by the
35 department pursuant to section 42-5106.

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

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

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

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

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

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

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

12 (a) "Affiliated companies, businesses, persons or reciprocal insurers"
13 means the lessor holds a controlling interest in the lessee, the lessee holds
14 a controlling interest in the lessor, an affiliated entity holds a
15 controlling interest in both the lessor and the lessee or an unrelated person
16 holds a controlling interest in both the lessor and lessee.

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

20 (c) "Reciprocal insurer" has the same meaning prescribed in section
21 20-762.

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

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

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

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

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

39 (b) The deduction provided in this paragraph does not include gross
40 proceeds of sales or gross income from the portion of any contracting
41 activity that consists of the development of, or modification to, real
42 property in order to facilitate the installation, assembly, repair,
43 maintenance or removal of machinery, equipment or other tangible personal
44 property described in section 42-5061, subsection B.

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

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

8 (i) Assembling the machinery, equipment or other tangible personal
9 property.

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

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

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

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

23 15. 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 16. THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM A CONTRACT
35 WITH THE OWNER OF REAL PROPERTY FOR THE MAINTENANCE, REPAIR OR REPLACEMENT OF
36 EXISTING PROPERTY IS NOT SUBJECT TO TAX IF THE CONTRACT DOES NOT INCLUDE
37 MODIFICATION ACTIVITIES. FOR THE PURPOSES OF THIS PARAGRAPH:

38 (a) EACH CONTRACT OR PROJECT IS INDEPENDENT OF ANOTHER CONTRACT.

39 (b) "MODIFICATION" MEANS CONSTRUCTION, ALTERATION, ADDITION,
40 SUBTRACTION, IMPROVEMENT, MOVEMENT, WRECKAGE OR DEMOLITION.

41 17. TANGIBLE PERSONAL PROPERTY, JOB PRINTING OR PUBLICATIONS SOLD TO OR
42 PURCHASED BY, OR TANGIBLE PERSONAL PROPERTY LEASED, RENTED OR LICENSED FOR
43 USE TO OR BY, A QUALIFYING HEALTH SCIENCES EDUCATIONAL INSTITUTION AS DEFINED
44 IN SECTION 42-5001.

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

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

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

12 2. Leasing, renting or licensing a motor vehicle subject to and ~~upon~~
13 **ON** which the fee has been paid under title 28, chapter 16, article 4.

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

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

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

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

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

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

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

42 D. A city, town or other taxing jurisdiction shall not levy a
43 transaction privilege, sales, use, franchise or other similar tax or fee,
44 however denominated, in excess of one-tenth of one per cent of the value of
45 the entire product mined, smelted, extracted, refined, produced or prepared

1 for sale, profit or commercial use, on persons engaged in the business of
2 mineral processing, except to the extent that the tax is computed on the
3 gross proceeds or gross income from sales at retail.

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

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

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

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

13 Sec. 9. Repeal

14 Section 42-6004, Arizona Revised Statutes, as amended by Laws 2013,
15 chapter 255, section 20, is repealed.

16 Sec. 10. Effective dates

17 A. Section 42-5061, Arizona Revised Statutes, as amended by Laws 2013,
18 first regular session, chapter 120, section 1 and chapter 233, section 1 and
19 Laws 2013, first special session, chapter 9, section 5 and this act, is
20 effective from and after December 31, 2014.

21 B. Section 42-5159, Arizona Revised Statutes, as amended by Laws 2013,
22 first special session, chapter 9, section 7 and this act, is effective from
23 and after December 31, 2014.

24 C. Section 42-6004, Arizona Revised Statutes, as amended by Laws 2013,
25 first regular session, chapter 27, section 2, chapter 120, section 2, chapter
26 153, section 2 and chapter 236, section 6 and Laws 2013, first special
27 session, chapter 9, section 8 and this act, is effective from and after
28 December 31, 2014.