

REFERENCE TITLE: taxes; manufacturers' electricity sales; exemption

State of Arizona
Senate
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2014

SB 1413

Introduced by
Senators Yarbrough, Worsley, Yee; Representative Lesko; Senators Barto,
Driggs, McComish, Murphy, Pierce; Representative Gray

AN ACT

AMENDING SECTION 42-5063, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 7; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 17; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 8 AND LAWS 2013, FIRST REGULAR SESSION, CHAPTER 27, SECTION 2, CHAPTER 120, SECTION 2, CHAPTER 153, SECTION 2 AND CHAPTER 236, SECTION 6; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 20; RELATING TO TAXES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5063, Arizona Revised Statutes, is amended to
3 read:

4 42-5063. Utilities classification; definitions

5 A. The utilities classification is comprised of the business of:

6 1. Producing and furnishing or furnishing to consumers natural or
7 artificial gas and water.

8 2. Providing to retail electric customers ancillary services, electric
9 distribution services, electric generation services, electric transmission
10 services and other services related to providing electricity.

11 B. The utilities classification does not include:

12 1. Sales of ancillary services, electric distribution services,
13 electric generation services, electric transmission services and other
14 services related to providing electricity, gas or water to a person who
15 resells the services.

16 2. Sales of natural gas or liquefied petroleum gas used to propel a
17 motor vehicle.

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

21 4. Sales of ancillary services, electric distribution services,
22 electric generation services, electric transmission services and other
23 services that are related to providing electricity to a retail electric
24 customer who is located outside this state for use outside this state if the
25 electricity is delivered to a point of sale outside this state.

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

33 C. The tax base for the utilities classification is the gross proceeds
34 of sales or gross income derived from the business, but the following shall
35 be deducted from the tax base:

36 1. Revenues received by a municipally owned utility in the form of
37 fees charged to persons constructing residential, commercial or industrial
38 developments or connecting residential, commercial or industrial developments
39 to a municipal utility system or systems if the fees are segregated and used
40 only for capital expansion, system enlargement or debt service of the utility
41 system or systems.

42 2. Revenues received by any person or persons owning a utility system
43 in the form of reimbursement or contribution compensation for property and
44 equipment installed to provide utility access to, on or across the land of an
45 actual utility consumer if the property and equipment become the property of

1 the utility. This deduction shall not exceed the value of such property and
2 equipment.

3 3. Gross proceeds of sales or gross income derived from sales to:

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

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

8 4. The portion of gross proceeds of sales or gross income that is
9 derived from sales to a qualified environmental technology manufacturer,
10 producer or processor as defined in section 41-1514.02 of a utility product
11 and that is used directly in environmental technology manufacturing,
12 producing or processing. This paragraph shall apply for twenty full
13 consecutive calendar or fiscal years from the date the first paper
14 manufacturing machine is placed in service. In the case of a qualified
15 environmental technology manufacturer, producer or processor who does not
16 manufacture paper, the time period shall begin with the date the first
17 manufacturing, processing or production equipment is placed in service.

18 5. The portion of gross proceeds of sales or gross income attributable
19 to transfers of electricity by any retail electric customer owning a solar
20 photovoltaic energy generating system to an electric distribution system, if
21 the electricity transferred is generated by the customer's system.

22 6. GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM SALES OF
23 ELECTRICITY FOR USE IN MANUFACTURING OR SMELTING OPERATIONS. FOR THE
24 PURPOSES OF THIS PARAGRAPH, "MANUFACTURING" AND "SMELTING" REFER TO AND
25 INCLUDE THOSE OPERATIONS COMMONLY UNDERSTOOD WITHIN THEIR ORDINARY MEANING.

26 D. For the purposes of this section:

27 1. "Ancillary services" means those services so designated in federal
28 energy regulatory commission order 888 adopted in 1996 that include the
29 services necessary to support the transmission of electricity from resources
30 to loads while maintaining reliable operation of the transmission system
31 according to good utility practice.

32 2. "Electric distribution service" means distributing electricity to
33 retail electric customers through the use of electric distribution
34 facilities.

35 3. "Electric generation service" means providing electricity for sale
36 to retail electric customers but excluding electric distribution or
37 transmission services.

38 4. "Electric transmission service" means transmitting electricity to
39 retail electric customers or to electric distribution facilities so
40 classified by the federal energy regulatory commission or, to the extent
41 permitted by law, so classified by the Arizona corporation commission.

42 5. "Other services" includes metering, meter reading services, billing
43 and collecting services.

1 6. "Retail electric customer" means a person who purchases electricity
2 for that person's own use, including use in that person's trade or business
3 and not for resale, redistribution or retransmission.

4 Sec. 2. Section 42-5159, Arizona Revised Statutes, as amended by Laws
5 2013, first special session, chapter 9, section 7, is amended to read:

6 42-5159. Exemptions

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

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

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

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

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

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

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

39 7. Purchases of implants used as growth promotants and injectable
40 medicines, not already exempt under paragraph 16 of this subsection, for
41 livestock and poultry owned by, or in possession of, persons who are engaged
42 in producing livestock, poultry, or livestock or poultry products, or who are
43 engaged in feeding livestock or poultry commercially. For the purposes of
44 this paragraph, "poultry" includes ratites.

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

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

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

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

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

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

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

22 13. Tangible personal property purchased by:

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

26 (b) A hospital operated by this state or a political subdivision of
27 this state.

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

33 (d) A qualifying health care organization, as defined in section
34 42-5001, if the tangible personal property is used by the organization solely
35 to provide health and medical related educational and charitable services.

36 (e) A qualifying health care organization as defined in section
37 42-5001 if the organization is dedicated to providing educational,
38 therapeutic, rehabilitative and family medical education training for blind,
39 visually impaired and multihandicapped children from the time of birth to age
40 twenty-one.

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

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

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

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

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

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

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

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

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

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

37 15. Tangible personal property sold by:

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

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

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

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

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

13 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

40 27. Lottery tickets or shares purchased pursuant to title 5, chapter
41 5.1, article 1.

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

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

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

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

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

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

19 (b) Public educational institutions.

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

23 33. Natural gas or liquefied petroleum gas used to propel a motor
24 vehicle.

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

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

43 36. Food, drink and condiment purchased for consumption within the
44 premises of any prison, jail or other institution under the jurisdiction of

1 the state department of corrections, the department of public safety, the
2 department of juvenile corrections or a county sheriff.

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

7 38. Tangible personal property which is or directly enters into and
8 becomes an ingredient or component part of cards used as prescription plan
9 identification cards.

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

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

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

33 40. Through December 31, 1994, tangible personal property sold pursuant
34 to a personal property liquidation transaction, as defined in section
35 42-5061. From and after December 31, 1994, tangible personal property sold
36 pursuant to a personal property liquidation transaction, as defined in
37 section 42-5061, if the gross proceeds of the sales were included in the
38 measure of the tax imposed by article 1 of this chapter or if the personal
39 property liquidation was a casual activity or transaction.

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

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

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

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

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

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

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

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

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

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

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

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

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

43 (b) "Curriculum design or enhancement" means planning, implementing or
44 reporting on courses of study, lessons, assignments or other learning
45 activities.

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

5 52. Repair parts installed in equipment used directly by a qualified
6 business under section 41-1516 in harvesting, processing or transporting
7 qualifying forest products removed from qualifying projects as defined in
8 section 41-1516.

9 53. Renewable energy credits or any other unit created to track energy
10 derived from renewable energy resources. For the purposes of this paragraph,
11 "renewable energy credit" means a unit created administratively by the
12 corporation commission or governing body of a public power entity to track
13 kilowatt hours of electricity derived from a renewable energy resource or the
14 kilowatt hour equivalent of conventional energy resources displaced by
15 distributed renewable energy resources.

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

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

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. Machinery, or equipment, used directly in the process of extracting
38 ores or minerals from the earth for commercial purposes, including equipment
39 required to prepare the materials for extraction and handling, loading or
40 transporting such extracted material to the surface. "Mining" includes
41 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 under section 42-5064
45 and consisting of central office switching equipment, switchboards, private

1 branch exchange equipment, microwave radio equipment and carrier equipment
2 including optical fiber, coaxial cable and other transmission media which are
3 components 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, or sold to persons who are not residents
24 of this state and who will not use such property in this state other than in
25 removing such property from this state.

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

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

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

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

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

43 13. New machinery and equipment consisting of tractors, tractor-drawn
44 implements, self-powered implements, machinery and equipment necessary for
45 extracting milk, and machinery and equipment necessary for cooling milk and

1 livestock, and drip irrigation lines not already exempt under paragraph 6 of
2 this subsection and that are used for commercial production of agricultural,
3 horticultural, viticultural and floricultural crops and products in this
4 state. For the purposes of this paragraph:

5 (a) "New machinery and equipment" means machinery or equipment which
6 has never been sold at retail except pursuant to leases or rentals which do
7 not total two years or more.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10 C. The exemptions provided by subsection B of this section do not
11 include:

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

16 2. Janitorial equipment and hand tools.

17 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

6 2. Reimbursement or contribution compensation to any person or persons
7 owning a utility system for property and equipment installed to provide
8 utility access to, on or across the land of an actual utility consumer if the
9 property and equipment become the property of the utility. This deduction
10 shall not exceed the value of such property and equipment.

11 G. THE TAX LEVIED BY THIS ARTICLE DOES NOT APPLY TO THE PURCHASE PRICE
12 OF ELECTRICITY FOR USE IN MANUFACTURING OR SMELTING OPERATIONS. FOR THE
13 PURPOSES OF THIS SUBSECTION, "MANUFACTURING" AND "SMELTING" REFER TO AND
14 INCLUDE THOSE OPERATIONS COMMONLY UNDERSTOOD WITHIN THEIR ORDINARY MEANING.

15 ~~G.~~ H. For the purposes of subsection B of this section:

16 1. "Aircraft" includes:

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

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

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

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

30 Sec. 3. Section 42-5159, Arizona Revised Statutes, as amended by Laws
31 2013, chapter 255, section 17, is amended to read:

32 42-5159. Exemptions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3 13. Tangible personal property purchased by:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19 15. Tangible personal property sold by:

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

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

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

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

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

40 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 (b) Public educational institutions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

31 7. Aircraft, navigational and communication instruments and other
32 accessories and related equipment sold to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

26 C. The exemptions provided by subsection B of this section do not
27 include:

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

32 2. Janitorial equipment and hand tools.

33 3. Office equipment, furniture and supplies.

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

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

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

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

44 8. Machinery and equipment or tangible personal property used by a
45 contractor in the performance of a contract.

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

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

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

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

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

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

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

28 G. THE TAX LEVIED BY THIS ARTICLE DOES NOT APPLY TO THE PURCHASE PRICE
29 OF ELECTRICITY FOR USE IN MANUFACTURING OR SMELTING OPERATIONS. FOR THE
30 PURPOSES OF THIS SUBSECTION, "MANUFACTURING" AND "SMELTING" REFER TO AND
31 INCLUDE THOSE OPERATIONS COMMONLY UNDERSTOOD WITHIN THEIR ORDINARY MEANING.

32 ~~G.~~ H. For the purposes of subsection B of this section:

33 1. "Aircraft" includes:

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

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

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

43 ~~H.~~ I. For the purposes of subsection D of this section, "ancillary
44 services", "electric distribution service", "electric generation service",

1 "electric transmission service" and "other services" have the same meanings
2 prescribed in section 42-5063.

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

7 42-6004. Exemption from municipal tax

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

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

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

19 3. Sales of warranty or service contracts.

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

23 5. Interest on finance contracts.

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

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

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

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

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

44 (b) "Internet access" means a service that enables users to access
45 content, information, electronic mail or other services over the internet.

1 Internet access does not include telecommunication services provided by a
2 common carrier.

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

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

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

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

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

18 (c) "Reciprocal insurer" has the same meaning prescribed in section
19 20-762.

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

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

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

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

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

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

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

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

5 (i) Assembling the machinery, equipment or other tangible personal
6 property.

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

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

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

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

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

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

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

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

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

44 3. The sale of a motor vehicle and any repair and replacement parts
45 and tangible personal property becoming a part of such motor vehicle to a

1 motor carrier who is subject to a fee prescribed in title 28, chapter 16,
2 article 4 and who is engaged in the business of leasing, renting or licensing
3 such property.

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

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

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

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

16 (b) The attributable amount is equal to the total amount of
17 development fees paid by the taxpayer or by a contractor providing services
18 to the taxpayer and the total development fees credited in exchange for the
19 construction of, contribution to or dedication of real property for providing
20 public infrastructure, public safety or other public services necessary to
21 the development. The real property must be the subject of the development
22 fees.

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

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

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

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

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

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

43 G. A CITY OR TOWN SHALL NOT LEVY A TRANSACTION PRIVILEGE, SALES, USE,
44 FRANCHISE OR OTHER SIMILAR TAX OR FEE, HOWEVER DENOMINATED, ON THE GROSS
45 PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM SALES OF ELECTRICITY BY A

1 UTILITY BUSINESS FOR USE IN MANUFACTURING OR SMELTING OPERATIONS. FOR THE
2 PURPOSES OF THIS SUBSECTION, "MANUFACTURING" AND "SMELTING" REFER TO AND
3 INCLUDE THOSE OPERATIONS COMMONLY UNDERSTOOD WITHIN THEIR ORDINARY MEANING.

4 Sec. 5. Section 42-6004, Arizona Revised Statutes, as amended by Laws
5 2013, chapter 255, section 20, is amended to read:

6 42-6004. Exemption from municipal tax

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

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

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

18 3. Sales of warranty or service contracts.

19 4. Sales of motor vehicles to nonresidents of this state for use
20 outside this state if the motor vehicle dealer ships or delivers the motor
21 vehicle to a destination outside this state.

22 5. Interest on finance contracts.

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

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

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

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

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

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

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

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

9 (a) "Affiliated corporation" means a corporation that meets one of the
10 following conditions:

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

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

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

18 (iv) The corporation is at least eighty per cent owned or controlled
19 by a corporation that is at least eighty per cent owned or controlled by a
20 reciprocal insurer.

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

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

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

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

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

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

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

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

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

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

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

11 4. Incarcerating or detaining in a privately operated prison, jail or
12 detention facility prisoners who are under the jurisdiction of the United
13 States, this state or any other state or a political subdivision of this
14 state or of any other state.

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

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

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

23 (b) The attributable amount is equal to the total amount of
24 development fees paid by the taxpayer or by a contractor providing services
25 to the taxpayer and the total development fees credited in exchange for the
26 construction of, contribution to or dedication of real property for providing
27 public infrastructure, public safety or other public services necessary to
28 the development. The real property must be the subject of the development
29 fees.

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

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

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

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

1 2. The waste tire disposal fee imposed pursuant to section 44-1302.
2 F. A city or town shall not levy a use tax on the storage, use or
3 consumption of tangible personal property in the city or town by a school
4 district or charter school.

5 G. A CITY OR TOWN SHALL NOT LEVY A TRANSACTION PRIVILEGE, SALES, USE,
6 FRANCHISE OR OTHER SIMILAR TAX OR FEE, HOWEVER DENOMINATED, ON THE GROSS
7 PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM SALES OF ELECTRICITY BY A
8 UTILITY BUSINESS FOR USE IN MANUFACTURING OR SMELTING OPERATIONS. FOR THE
9 PURPOSES OF THIS SUBSECTION, "MANUFACTURING" AND "SMELTING" REFER TO AND
10 INCLUDE THOSE OPERATIONS COMMONLY UNDERSTOOD WITHIN THEIR ORDINARY MEANING.

11 Sec. 6. Effective date

12 A. Section 42-5063, Arizona Revised Statutes, as amended by this act,
13 section 42-5159, Arizona Revised Statutes, as amended by Laws 2013, first
14 special session, chapter 9, section 7 and this act, and section 42-6004,
15 Arizona Revised Statutes, as amended by Laws 2013, first special session,
16 chapter 9, section 8 and Laws 2013, first regular session, chapter 27,
17 section 2, chapter 120, section 2, chapter 153, section 2 and chapter 236,
18 chapter 6 and this act, are effective from and after the last day of the
19 month of the general effective date of the fifty-first legislature, second
20 regular session.

21 B. Section 42-5159, Arizona Revised Statutes, as amended by Laws 2013,
22 chapter 255, section 17 and this act, and section 42-6004, Arizona Revised
23 Statutes, as amended by Laws 2013, chapter 255, section 20 and this act, are
24 effective from and after December 31, 2014.