

State of Arizona  
Senate  
Fifty-first Legislature  
Second Regular Session  
2014

# SENATE BILL 1413

## 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 TITLE 42, CHAPTER 6, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-6012; 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 TO A BUSINESS THAT IS PRINCIPALLY ENGAGED IN MANUFACTURING OR  
24 SMELTING OPERATIONS THAT USES AT LEAST FIFTY-ONE PER CENT OF THE ELECTRICITY  
25 IN THE MANUFACTURING OR SMELTING OPERATIONS. FOR THE PURPOSES OF THIS  
26 PARAGRAPH:

27 (a) "MANUFACTURING" MEANS THE PERFORMANCE AS A BUSINESS OF AN  
28 INTEGRATED SERIES OF OPERATIONS THAT PLACE TANGIBLE PERSONAL PROPERTY IN A  
29 FORM, COMPOSITION OR CHARACTER DIFFERENT FROM THAT IN WHICH IT WAS ACQUIRED  
30 AND TRANSFORMS IT INTO A DIFFERENT PRODUCT WITH A DISTINCTIVE NAME, CHARACTER  
31 OR USE. MANUFACTURING DOES NOT INCLUDE PROCESSING, FABRICATING, JOB  
32 PRINTING, MINING, GENERATING ELECTRICITY OR OPERATING A RESTAURANT.

33 (b) "PRINCIPALLY ENGAGED" MEANS AT LEAST FIFTY-ONE PER CENT OF THE  
34 BUSINESS IS A MANUFACTURING OR SMELTING OPERATION.

35 (c) "SMELTING" MEANS TO MELT OR FUSE A METALLIFEROUS MINERAL OFTEN  
36 WITH AN ACCOMPANYING CHEMICAL CHANGE USUALLY TO SEPARATE THE METAL.

37 D. For the purposes of this section:

38 1. "Ancillary services" means those services so designated in federal  
39 energy regulatory commission order 888 adopted in 1996 that include the  
40 services necessary to support the transmission of electricity from resources  
41 to loads while maintaining reliable operation of the transmission system  
42 according to good utility practice.

43 2. "Electric distribution service" means distributing electricity to  
44 retail electric customers through the use of electric distribution  
45 facilities.

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

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

8           5. "Other services" includes metering, meter reading services, billing  
9 and collecting services.

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

13          Sec. 2. Section 42-5159, Arizona Revised Statutes, as amended by Laws  
14 2013, first special session, chapter 9, section 7, is amended to read:

15           42-5159. Exemptions

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

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

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

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

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

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

43           6. Tangible personal property brought into this state by an individual  
44 who was a nonresident at the time the property was purchased for storage, use  
45 or consumption by the individual if the first actual use or consumption of

1 the property was outside this state, unless the property is used in  
2 conducting a business in this state.

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

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

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

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

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

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

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

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

30 13. Tangible personal property purchased by:

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

34 (b) A hospital operated by this state or a political subdivision of  
35 this state.

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

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

44 (e) A qualifying health care organization as defined in section  
45 42-5001 if the organization is dedicated to providing educational,

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

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

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

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

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

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

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

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

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

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

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

45 15. Tangible personal property sold by:

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

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

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

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

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

21 18. Prescription eyeglasses and contact lenses.

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

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

24 21. Durable medical equipment which has a centers for medicare and  
25 medicaid services common procedure code, is designated reimbursable by  
26 medicare, is prescribed by a person who is licensed under title 32, chapter  
27 7, 13, 17 or 29, can withstand repeated use, is primarily and customarily  
28 used to serve a medical purpose, is generally not useful to a person in the  
29 absence of illness or injury and is appropriate for use in the home.

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

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

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

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

43 26. Food, drink or condiment and accessory tangible personal property  
44 that are acquired for use by or provided to a school district or charter  
45 school if they are to be either served or prepared and served to persons for

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

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

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

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

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

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

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

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

27 (b) Public educational institutions.

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

31 33. Natural gas or liquefied petroleum gas used to propel a motor  
32 vehicle.

33 34. Machinery, equipment, technology or related supplies that are only  
34 useful to assist a person who is physically disabled as defined in section  
35 46-191, has a developmental disability as defined in section 36-551 or has a  
36 head injury as defined in section 41-3201 to be more independent and  
37 functional.

38 35. Liquid, solid or gaseous chemicals used in manufacturing,  
39 processing, fabricating, mining, refining, metallurgical operations, research  
40 and development and, beginning on January 1, 1999, printing, if using or  
41 consuming the chemicals, alone or as part of an integrated system of  
42 chemicals, involves direct contact with the materials from which the product  
43 is produced for the purpose of causing or permitting a chemical or physical  
44 change to occur in the materials as part of the production process. This  
45 paragraph does not include chemicals that are used or consumed in activities



1 such as packaging, storage or transportation but does not affect any  
2 exemption for such chemicals that is otherwise provided by this section. For  
3 the purposes of this paragraph, "printing" means a commercial printing  
4 operation and includes job printing, engraving, embossing, copying and  
5 bookbinding.

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

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

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

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

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

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

40 40. Through December 31, 1994, tangible personal property sold pursuant  
41 to a personal property liquidation transaction, as defined in section  
42 42-5061. From and after December 31, 1994, tangible personal property sold  
43 pursuant to a personal property liquidation transaction, as defined in  
44 section 42-5061, if the gross proceeds of the sales were included in the

1 measure of the tax imposed by article 1 of this chapter or if the personal  
2 property liquidation was a casual activity or transaction.

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

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

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

17 44. Alternative fuel vehicles if the vehicle was manufactured as a  
18 diesel fuel vehicle and converted to operate on alternative fuel and  
19 equipment that is installed in a conventional diesel fuel motor vehicle to  
20 convert the vehicle to operate on an alternative fuel, as defined in section  
21 1-215.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1           2. Machinery, or equipment, used directly in the process of extracting  
2 ores or minerals from the earth for commercial purposes, including equipment  
3 required to prepare the materials for extraction and handling, loading or  
4 transporting such extracted material to the surface. "Mining" includes  
5 underground, surface and open pit operations for extracting ores and  
6 minerals.

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

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

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

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

24           7. Aircraft, navigational and communication instruments and other  
25 accessories and related equipment sold to:

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

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

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

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

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

44           11. Buses or other urban mass transit vehicles which are used directly  
45 to transport persons or property for hire or pursuant to a governmentally

1 adopted and controlled urban mass transportation program and which are sold  
2 to bus companies holding a federal certificate of convenience and necessity  
3 or operated by any city, town or other governmental entity or by any person  
4 contracting with such governmental entity as part of a governmentally adopted  
5 and controlled program to provide urban mass transportation.

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

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

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

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

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

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

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

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

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

43 (ii) Over two-thirds of the transmissions, measured in megabytes,  
44 transmitted by or on behalf of those direct broadcast television or data

1 transmission services during the test period were transmitted by the facility  
2 to or on behalf of those services.

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

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

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

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

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

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

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

43 20. Machinery or equipment that enables a television station to  
44 originate and broadcast or to receive and broadcast digital television  
45 signals and that was purchased to facilitate compliance with the

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

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

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

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

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

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

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

24 2. Janitorial equipment and hand tools.

25 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

18 G. THE TAX LEVIED BY THIS ARTICLE DOES NOT APPLY TO THE PURCHASE PRICE  
19 OF ELECTRICITY BY A BUSINESS THAT IS PRINCIPALLY ENGAGED IN MANUFACTURING OR  
20 SMELTING OPERATIONS THAT USES AT LEAST FIFTY-ONE PER CENT OF THE ELECTRICITY  
21 IN THE MANUFACTURING OR SMELTING OPERATIONS. FOR THE PURPOSES OF THIS  
22 SUBSECTION:

23 (a) "MANUFACTURING" MEANS THE PERFORMANCE AS A BUSINESS OF AN  
24 INTEGRATED SERIES OF OPERATIONS THAT PLACE TANGIBLE PERSONAL PROPERTY IN A  
25 FORM, COMPOSITION OR CHARACTER DIFFERENT FROM THAT IN WHICH IT WAS ACQUIRED  
26 AND TRANSFORMS IT INTO A DIFFERENT PRODUCT WITH A DISTINCTIVE NAME, CHARACTER  
27 OR USE. MANUFACTURING DOES NOT INCLUDE PROCESSING, FABRICATING, JOB PRINTING,  
28 MINING, GENERATING ELECTRICITY OR OPERATING A RESTAURANT.

29 (b) "PRINCIPALLY ENGAGED" MEANS AT LEAST FIFTY-ONE PER CENT OF THE  
30 BUSINESS IS A MANUFACTURING OR SMELTING OPERATION.

31 (c) "SMELTING" MEANS TO MELT OR FUSE A METALLIFEROUS MINERAL OFTEN  
32 WITH AN ACCOMPANYING CHEMICAL CHANGE USUALLY TO SEPARATE THE METAL.

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

34 1. "Aircraft" includes:

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

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

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

44 ~~H.~~ I. For the purposes of subsection D of this section, "ancillary  
45 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. 3. Section 42-5159, Arizona Revised Statutes, as amended by Laws  
4 2013, chapter 255, section 17, is amended to read:

5 42-5159. Exemptions

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

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

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

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

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

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

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

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

44 8. Livestock, poultry, supplies, feed, salts, vitamins and other  
45 additives for use or consumption in the businesses of farming, ranching and

1 feeding livestock or poultry, not including fertilizers, herbicides and  
2 insecticides. For the purposes of this paragraph, "poultry" includes  
3 ratites.

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

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

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

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

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

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

20 13. Tangible personal property purchased by:

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

24 (b) A hospital operated by this state or a political subdivision of  
25 this state.

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

31 (d) A qualifying health care organization, as defined in section  
32 42-5001, if the tangible personal property is used by the organization solely  
33 to provide health and medical related educational and charitable services.

34 (e) A qualifying health care organization as defined in section  
35 42-5001 if the organization is dedicated to providing educational,  
36 therapeutic, rehabilitative and family medical education training for blind,  
37 visually impaired and multihandicapped children from the time of birth to age  
38 twenty-one.

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

44 (g) A person that is subject to tax under article 1 of this chapter by  
45 reason of being engaged in business classified under the prime contracting

1 classification under section 42-5075, or a subcontractor working under the  
2 control of a prime contractor, if the tangible personal property is any of  
3 the following:

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

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

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

12 (i) A qualifying community health center as defined in section  
13 42-5001.

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

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

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

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

35 15. Tangible personal property sold by:

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

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

44 (c) A nonprofit organization that is exempt from taxation under  
45 section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the

1 internal revenue code if the organization sponsors or operates a rodeo  
2 featuring primarily farm and ranch animals and no part of the organization's  
3 net earnings inures to the benefit of any private shareholder or individual.

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

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

11 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

38 27. Lottery tickets or shares purchased pursuant to title 5, chapter  
39 5.1, article 1.

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

42 29. Magazines, other periodicals or other publications produced by this  
43 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 that 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, that is 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 on 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        B. In addition to the exemptions allowed by subsection A of this  
17 section, the following categories of tangible personal property are also  
18 exempt:

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

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

32        3. Tangible personal property sold to persons engaged in business  
33 classified under the telecommunications classification under section 42-5064  
34 and consisting of central office switching equipment, switchboards, private  
35 branch exchange equipment, microwave radio equipment and carrier equipment  
36 including optical fiber, coaxial cable and other transmission media that are  
37 components of carrier systems.

38        4. Machinery, equipment or transmission lines used directly in  
39 producing or transmitting electrical power, but not including distribution.  
40 Transformers and control equipment used at transmission substation sites  
41 constitute equipment used in producing or transmitting electrical power.

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



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

5           7. Aircraft, navigational and communication instruments and other  
6 accessories and related equipment sold to:

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

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

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

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

22           10. Machinery or equipment used directly to drill for oil or gas or  
23 used directly in the process of extracting oil or gas from the earth for  
24 commercial purposes.

25           11. Buses or other urban mass transit vehicles that are used directly  
26 to transport persons or property for hire or pursuant to a governmentally  
27 adopted and controlled urban mass transportation program and that are sold to  
28 bus companies holding a federal certificate of convenience and necessity or  
29 operated by any city, town or other governmental entity or by any person  
30 contracting with such governmental entity as part of a governmentally adopted  
31 and controlled program to provide urban mass transportation.

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

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

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

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

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

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

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

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

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

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

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

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

42        (a) Includes the integrated systems, fixtures, piping, movable  
43 partitions, lighting and all property that is necessary or adapted to reduce  
44 contamination or to control airflow, temperature, humidity, chemical purity  
45 or other environmental conditions or manufacturing tolerances, as well as the

1 production machinery and equipment operating in conjunction with the clean  
2 room environment.

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

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

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

19 19. Machinery and equipment that are used in the commercial production  
20 of livestock, livestock products or agricultural, horticultural, viticultural  
21 or floricultural crops or products in this state and that are used directly  
22 and primarily to prevent, monitor, control or reduce air, water or land  
23 pollution.

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

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

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

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

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

44 C. The exemptions provided by subsection B of this section do not  
45 include:

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

5           2. Janitorial equipment and hand tools.

6           3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

26           2. Revenues received from providing electricity, including ancillary  
27 services, electric distribution services, electric generation services,  
28 electric transmission services and other services related to providing  
29 electricity with respect to which the transaction privilege tax imposed under  
30 section 42-5063 has been paid.

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

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

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

41           2. Reimbursement or contribution compensation to any person or persons  
42 owning a utility system for property and equipment installed to provide  
43 utility access to, on or across the land of an actual utility consumer if the  
44 property and equipment become the property of the utility. This deduction  
45 shall not exceed the value of such property and equipment.

1 G. THE TAX LEVIED BY THIS ARTICLE DOES NOT APPLY TO THE PURCHASE PRICE  
2 OF ELECTRICITY BY A BUSINESS THAT IS PRINCIPALLY ENGAGED IN MANUFACTURING OR  
3 SMELTING OPERATIONS THAT USES AT LEAST FIFTY-ONE PER CENT OF THE ELECTRICITY  
4 IN THE MANUFACTURING OR SMELTING OPERATIONS. FOR THE PURPOSES OF THIS  
5 SUBSECTION:

6 (a) "MANUFACTURING" MEANS THE PERFORMANCE AS A BUSINESS OF AN  
7 INTEGRATED SERIES OF OPERATIONS THAT PLACE TANGIBLE PERSONAL PROPERTY IN A  
8 FORM, COMPOSITION OR CHARACTER DIFFERENT FROM THAT IN WHICH IT WAS ACQUIRED  
9 AND TRANSFORMS IT INTO A DIFFERENT PRODUCT WITH A DISTINCTIVE NAME, CHARACTER  
10 OR USE. MANUFACTURING DOES NOT INCLUDE PROCESSING, FABRICATING, JOB  
11 PRINTING, MINING, GENERATING ELECTRICITY OR OPERATING A RESTAURANT.

12 (b) "PRINCIPALLY ENGAGED" MEANS AT LEAST FIFTY-ONE PER CENT OF THE  
13 BUSINESS IS A MANUFACTURING OR SMELTING OPERATION.

14 (c) "SMELTING" MEANS TO MELT OR FUSE A METALLIFEROUS MINERAL OFTEN  
15 WITH AN ACCOMPANYING CHEMICAL CHANGE USUALLY TO SEPARATE THE METAL.

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

17 1. "Aircraft" includes:

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

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

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

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

31 Sec. 4. Title 42, chapter 6, article 1, Arizona Revised Statutes, is  
32 amended by adding section 42-6012, to read:

33 ~~42-6012.~~ Municipal transaction privilege tax: sales of  
34 electricity

35 A. A CITY OR TOWN THAT LEVIES A TRANSACTION PRIVILEGE, SALES, GROSS  
36 RECEIPTS, USE, FRANCHISE OR OTHER SIMILAR FEE OR TAX, HOWEVER DENOMINATED, ON  
37 THE BUSINESS OF PRODUCING, PROVIDING OR FURNISHING ELECTRICITY, ELECTRIC  
38 LIGHTS, CURRENT OR POWER SHALL EITHER TAX OR EXEMPT IN WHOLE THE GROSS  
39 PROCEEDS OF SALES OR GROSS INCOME FROM SALES BY THOSE BUSINESSES TO  
40 BUSINESSES THAT USE AT LEAST FIFTY-ONE PER CENT OF THE ELECTRICITY, ELECTRIC  
41 LIGHTS, CURRENT OR POWER IN MANUFACTURING OR SMELTING OPERATION LOCATED IN  
42 THAT CITY OR TOWN.

43 B. FOR THE PURPOSES OF THIS SECTION:

44 1. "MANUFACTURING" MEANS THE PERFORMANCE AS A BUSINESS OF AN  
45 INTEGRATED SERIES OF OPERATIONS THAT PLACE TANGIBLE PERSONAL PROPERTY IN A

1 FORM, COMPOSITION OR CHARACTER DIFFERENT FROM THAT IN WHICH IT WAS ACQUIRED  
2 AND TRANSFORMS IT INTO A DIFFERENT PRODUCT WITH A DISTINCTIVE NAME, CHARACTER  
3 OR USE. MANUFACTURING DOES NOT INCLUDE PROCESSING, FABRICATING, JOB  
4 PRINTING, MINING, GENERATING ELECTRICITY OR OPERATING A RESTAURANT.

5 2. "PRINCIPALLY ENGAGED" MEANS AT LEAST FIFTY-ONE PERCENT OF THE  
6 BUSINESS IS A MANUFACTURING OR SMELTING OPERATION.

7 3. "SMELTING" MEANS TO MELT OR FUSE A METALLIFEROUS MINERAL OFTEN WITH  
8 AN ACCOMPANYING CHEMICAL CHANGE USUALLY TO SEPARATE THE METAL.

9 Sec. 5. Effective date

10 A. Section 42-5063, Arizona Revised Statutes, as amended by this act,  
11 section 42-5159, Arizona Revised Statutes, as amended by Laws 2013, first  
12 special session, chapter 9, section 7 and this act, are effective from and  
13 after the last day of the month of the general effective date of the  
14 fifty-first legislature, second regular session.

15 B. Section 42-5159, Arizona Revised Statutes, as amended by Laws 2013,  
16 chapter 255, section 17 and this act, is effective from and after December  
17 31, 2014.