

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

CHAPTER 54
HOUSE BILL 2285

AN ACT

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

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

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

6 42-5061. Retail classification; definitions

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

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

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

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

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

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

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

29 7. The sale of stocks and bonds.

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

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

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

37 11. Prescription eyeglasses or contact lenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 25. Tangible personal property sold to:

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

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

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

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

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

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

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

45 27. Tangible personal property sold to a person that is subject to tax
46 under this article by reason of being engaged in business classified under

1 the prime contracting classification under section 42-5075, ~~or~~ or to a
2 subcontractor working under the control of a prime contractor that is subject
3 to tax under article 1 of this chapter, if the property so sold is any of the
4 following:

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

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

9 28. The sale of a motor vehicle to:

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

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

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

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

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

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

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

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

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

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

6 36. Sales of natural gas or liquefied petroleum gas used to propel a
7 motor vehicle.

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

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

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

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

41 (a) "Personal property liquidation transaction" means a sale of
42 personal property made by a personal property liquidator acting solely on
43 behalf of the owner of the personal property sold at the dwelling of the
44 owner or on the death of any owner, on behalf of the surviving spouse, if
45 any, any devisee or heir or the personal representative of the estate of the
46 deceased, if one has been appointed.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

11 52. Sales of tangible personal property to be incorporated or installed
12 as part of environmental response or remediation activities under section
13 42-5075, subsection B, paragraph 6.

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

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

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

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

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

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

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

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

45 59. Computer data center equipment purchased by the owner, operator or
46 qualified colocation tenant of the computer data center or an authorized

1 agent of the owner, operator or qualified colocation tenant during the
2 qualification period for use in a computer data center that is certified by
3 the Arizona commerce authority under section 41-1519. To qualify for this
4 deduction, at the time of purchase, the owner, operator or qualified
5 colocation tenant must present to the retailer its certificate that is issued
6 pursuant to section 41-1519 and that establishes its qualification for the
7 deduction. For the purposes of this paragraph, "computer data center",
8 "computer data center equipment", "qualification period" and "qualified
9 colocation tenant" have the same meanings prescribed in section 41-1519.

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

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

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

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

30 3. Tangible personal property sold to persons engaged in business
31 classified under the telecommunications classification and consisting of
32 central office switching equipment, switchboards, private branch exchange
33 equipment, microwave radio equipment and carrier equipment including optical
34 fiber, coaxial cable and other transmission media ~~which~~ THAT are components
35 of carrier systems.

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

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

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

1 7. Aircraft, navigational and communication instruments and other
2 accessories and related equipment sold to:

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

9 (b) Any foreign government.

10 (c) Persons who are not residents of this state and who will not use
11 such property in this state other than in removing such property from this
12 state. This subdivision also applies to corporations that are not
13 incorporated in this state, regardless of maintaining a place of business in
14 this state, if the principal corporate office is located outside this state
15 and the property will not be used in this state other than in removing the
16 property from this state.

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

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

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

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

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

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

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

45 (b) "Self-powered implements" includes machinery and equipment that
46 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 used directly in the feeding of poultry,
6 the environmental control of housing for poultry, the movement of eggs within
7 a production and packaging facility or the sorting or cooling of eggs. This
8 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 sold to a person engaged in the
20 commercial production of livestock, livestock products or agricultural,
21 horticultural, viticultural or floricultural crops or products in this state
22 and that are used directly and primarily to prevent, monitor, control or
23 reduce air, water or land 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 deduction, the
42 qualified business at the time of purchase must present its certification
43 approved by the department.

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

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 D. In addition to the deductions from the tax base prescribed by
18 subsection A of this section, there shall be deducted from the tax base the
19 gross proceeds of sales or gross income derived from sales of machinery,
20 equipment, materials and other tangible personal property used directly and
21 predominantly to construct a qualified environmental technology
22 manufacturing, producing or processing facility as described in section
23 41-1514.02. This subsection applies for ten full consecutive calendar or
24 fiscal years after the start of initial construction.

25 E. In computing the tax base, gross proceeds of sales or gross income
26 from retail sales of heavy trucks and trailers does not include any amount
27 attributable to federal excise taxes imposed by 26 United States Code section
28 4051.

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

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

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

45 I. A person who engages in manufacturing, baling, crating, boxing,
46 barreling, canning, bottling, sacking, preserving, processing or otherwise

1 preparing for sale or commercial use any livestock, agricultural or
2 horticultural product or any other product, article, substance or commodity
3 and who sells the product of such business at retail in this state is deemed,
4 as to such sales, to be engaged in business classified under the retail
5 classification. This subsection does not apply to businesses classified
6 under the:

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

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

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

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

25 3. Overhead materials or other tangible personal property that is used
26 in performing a contract between the United States government and a
27 manufacturer, modifier, assembler or repairer, including property used in
28 performing a subcontract with a government contractor who is a manufacturer,
29 modifier, assembler or repairer, to which title passes to the government
30 under the terms of the contract or subcontract.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

37 1. THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
38 OF REFINING THE COAL.

39 2. THE TITLE OR POSSESSION OF THE COAL IS TRANSFERRED BACK TO THE
40 OWNER OR OPERATOR OF THE POWER PLANT AFTER COMPLETION OF THE COAL REFINING
41 PROCESS. FOR THE PURPOSES OF THIS PARAGRAPH, "COAL REFINING PROCESS"
42 MEANS THE APPLICATION OF A COAL ADDITIVE SYSTEM THAT AIDS IN THE REDUCTION OF
43 POWER PLANT EMISSIONS DURING THE COMBUSTION OF COAL AND THE TREATMENT OF FLUE
44 GAS.

45 ~~S.~~ T. If a seller is entitled to a deduction pursuant to subsection
46 B, paragraph 15, subdivision (b) of this section, the department may require

1 the purchaser to establish that the requirements of subsection B, paragraph
2 15, subdivision (b) of this section have been satisfied. If the purchaser
3 cannot establish that the requirements of subsection B, paragraph 15,
4 subdivision (b) of this section have been satisfied, the purchaser is liable
5 in an amount equal to any tax, penalty and interest which the seller would
6 have been required to pay under article 1 of this chapter if the seller had
7 not made a deduction pursuant to subsection B, paragraph 15, subdivision (b)
8 of this section. Payment of the amount under this subsection exempts the
9 purchaser from liability for any tax imposed under article 4 of this chapter
10 and related to the tangible personal property purchased. The amount shall be
11 treated as transaction privilege tax to the purchaser and as tax revenues
12 collected from the seller to designate the distribution base pursuant to
13 section 42-5029.

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

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

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

22 ~~U.~~ V. In computing the tax base for the sale of a motor vehicle to a
23 nonresident of this state, if the purchaser's state of residence allows a
24 corresponding use tax exemption to the tax imposed by article 1 of this
25 chapter and the rate of the tax in the purchaser's state of residence is
26 lower than the rate prescribed in article 1 of this chapter or if the
27 purchaser's state of residence does not impose an excise tax, and the
28 nonresident has secured a special ninety day nonresident registration permit
29 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall
30 be deducted from the tax base a portion of the gross proceeds or gross income
31 from the sale so that the amount of transaction privilege tax that is paid in
32 this state is equal to the excise tax that is imposed by the purchaser's
33 state of residence on the nonexempt sale or use of the motor vehicle.

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

35 1. "Aircraft" includes:

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

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

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

45 3. "Selling at retail" means a sale for any purpose other than for
46 resale in the regular course of business in the form of tangible personal

1 property, but transfer of possession, lease and rental as used in the
2 definition of sale mean only such transactions as are found on investigation
3 to be in lieu of sales as defined without the words lease or rental.

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

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

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

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

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

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

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

32 Sec. 2. Section 42-5061, Arizona Revised Statutes, as amended by Laws
33 2013, chapter 255, section 13, is amended to read:

34 42-5061. Retail classification; definitions

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

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

43 2. Services rendered in addition to selling tangible personal property
44 at retail.

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

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

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

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

13 7. The sale of stocks and bonds.

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

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

21 11. Prescription eyeglasses or contact lenses.

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

23 13. Durable medical equipment that has a centers for medicare and
24 medicaid services common procedure code, is designated reimbursable by
25 medicare, is prescribed by a person who is licensed under title 32, chapter
26 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and
27 customarily used to serve a medical purpose, is generally not useful to a
28 person in the absence of illness or injury and is appropriate for use in the
29 home.

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

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

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

40 17. Textbooks by any bookstore that are required by any state
41 university or community college.

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

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

6 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
7 article 1.

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

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

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

19 22. Motor vehicle fuel and use fuel that are subject to a tax imposed
20 under title 28, chapter 16, article 1, sales of use fuel to a holder of a
21 valid single trip use fuel tax permit issued under section 28-5739, sales of
22 aviation fuel that are subject to the tax imposed under section 28-8344 and
23 sales of jet fuel that are subject to the tax imposed under article 8 of this
24 chapter.

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

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

31 25. Tangible personal property sold to:

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

33 (b) 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 (c) 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 (d) A qualifying community health center as defined in section
42 42-5001.

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

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

9 26. Magazines or other periodicals or other publications by this state
10 to encourage tourist travel.

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

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

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

21 28. The sale of a motor vehicle to:

22 (a) A nonresident of this state if the purchaser's state of residence
23 does not allow a corresponding use tax exemption to the tax imposed by
24 article 1 of this chapter and if the nonresident has secured a special ninety
25 day nonresident registration permit for the vehicle as prescribed by sections
26 28-2154 and 28-2154.01.

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

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

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

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

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

7 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other
8 propagative material to persons who use those items to commercially produce
9 agricultural, horticultural, viticultural or floricultural crops in this
10 state.

11 34. Machinery, equipment, technology or related supplies that are only
12 useful to assist a person who is physically disabled as defined in section
13 46-191, has a developmental disability as defined in section 36-551 or has a
14 head injury as defined in section 41-3201 to be more independent and
15 functional.

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

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

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

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

45 39. Through December 31, 1994, personal property liquidation
46 transactions, conducted by a personal property liquidator. From and after

1 December 31, 1994, personal property liquidation transactions shall be
2 taxable under this section provided that nothing in this subsection shall be
3 construed to authorize the taxation of casual activities or transactions
4 under this chapter. For the purposes of this paragraph:

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

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

13 40. Sales of food, drink and condiment for consumption within the
14 premises of any prison, jail or other institution under the jurisdiction of
15 the state department of corrections, the department of public safety, the
16 department of juvenile corrections or a county sheriff.

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

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

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

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

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

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

45 47. Sales of materials that are purchased by or for publicly funded
46 libraries including school district libraries, charter school libraries,

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

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

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

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

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

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

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

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

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

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

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

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

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

44 56. Sales of repair parts installed in equipment used directly by a
45 qualified business under section 41-1516 in harvesting, processing or

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

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

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

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

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

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

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

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

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

44 7. Aircraft, navigational and communication instruments and other
45 accessories and related equipment sold to:

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

7 (b) Any foreign government.

8 (c) Persons who are not residents of this state and who will not use
9 such property in this state other than in removing such property from this
10 state. This subdivision also applies to corporations that are not
11 incorporated in this state, regardless of maintaining a place of business in
12 this state, if the principal corporate office is located outside this state
13 and the property will not be used in this state other than in removing the
14 property from this state.

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

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

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

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

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

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

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

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

44 14. Machinery or equipment used in research and development. For the
45 purposes of this paragraph, "research and development" means basic and
46 applied research in the sciences and engineering, and designing, developing

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

46 2. Janitorial equipment and hand tools.

1 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

22 E. In computing the tax base, gross proceeds of sales or gross income
23 from retail sales of heavy trucks and trailers does not include any amount
24 attributable to federal excise taxes imposed by 26 United States Code section
25 4051.

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

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

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

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

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

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

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

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

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

21 3. Overhead materials or other tangible personal property that is used
22 in performing a contract between the United States government and a
23 manufacturer, modifier, assembler or repairer, including property used in
24 performing a subcontract with a government contractor who is a manufacturer,
25 modifier, assembler or repairer, to which title passes to the government
26 under the terms of the contract or subcontract.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

34 1. THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
35 OF REFINING THE COAL.

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

41 ~~S.~~ T. If a seller is entitled to a deduction pursuant to subsection
42 B, paragraph 15, subdivision (b) of this section, the department may require
43 the purchaser to establish that the requirements of subsection B, paragraph
44 15, subdivision (b) of this section have been satisfied. If the purchaser
45 cannot establish that the requirements of subsection B, paragraph 15,
46 subdivision (b) of this section have been satisfied, the purchaser is liable

1 in an amount equal to any tax, penalty and interest which the seller would
2 have been required to pay under article 1 of this chapter if the seller had
3 not made a deduction pursuant to subsection B, paragraph 15, subdivision (b)
4 of this section. Payment of the amount under this subsection exempts the
5 purchaser from liability for any tax imposed under article 4 of this chapter
6 and related to the tangible personal property purchased. The amount shall be
7 treated as transaction privilege tax to the purchaser and as tax revenues
8 collected from the seller to designate the distribution base pursuant to
9 section 42-5029.

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

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

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

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

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

31 1. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

19 6. "Subcontract" means an agreement between a contractor and any
20 person who is not an employee of the contractor for furnishing of supplies or
21 services that, in whole or in part, are necessary to the performance of one
22 or more government contracts, or under which any portion of the contractor's
23 obligation under one or more government contracts is performed, undertaken or
24 assumed and that includes provisions causing title to overhead materials or
25 other tangible personal property used in the performance of the subcontract
26 to pass to the government or that includes provisions incorporating such
27 title passing clauses in a government contract into the subcontract. For the
28 purposes of this paragraph, "contractor" has its ordinary and common meaning
29 ~~and does not have the meaning prescribed by section 42-5001.~~

30 Sec. 3. Section 42-5072, Arizona Revised Statutes, is amended to read:

31 42-5072. Mining classification: definition

32 A. The mining classification is comprised of the business of mining,
33 quarrying or producing for sale, profit or commercial use any
34 nonmetalliferous mineral product that has been mined, quarried or otherwise
35 extracted within the boundaries of this state described in article I, section
36 1, Constitution of Arizona.

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

42 C. The tax base includes the value of the entire product mined,
43 quarried or produced for sale, profit or commercial use in this state,
44 regardless of the place of sale of the product or of the fact that deliveries
45 may be made to points without this state. If, however, the sale price of the
46 product includes freight, the sale price shall be reduced by the actual

1 freight paid by any person from the place of production to the place of
2 delivery.

3 D. In the case of a person engaged in business classified under the
4 mining classification all or part of whose income is derived from service or
5 manufacturing charges instead of from sales of the products manufactured or
6 handled, the tax base includes the gross income of the person derived from
7 the service or manufacturing charge.

8 E. If a person engaging in business classified under the mining
9 classification ships or transports all or part of a product out of this state
10 without making sale of the product or ships his product outside of this state
11 in an unfinished condition, the value of the product or article in the
12 condition or form in which it existed when transported out of this state and
13 before it enters interstate commerce is included in the tax base, and the
14 department shall prescribe equitable and uniform rules for ascertaining that
15 value. In determining the tax base, if the product or any part of the
16 product has been processed in this state and the proceeds of such processing
17 have been included in the tax base of the processor under this chapter, the
18 person may deduct from the value of the product when transported out of this
19 state the cost of such processing.

20 F. A person who conducts a business classified under the mining
21 classification may be deemed also to be engaged in business classified under
22 the retail classification to the extent the person's activities comprise
23 business under the retail classification if the tax is paid at the rate
24 imposed on the retail classification by section 42-5010. If the transaction
25 is not subject to taxation under the retail classification, the transaction
26 shall be included in the tax base under this section, **EXCEPT FOR THE TRANSFER**
27 **OF TITLE OR POSSESSION OF COAL BACK AND FORTH BETWEEN AN OWNER OR OPERATOR OF**
28 **A POWER PLANT AND A PERSON WHO IS RESPONSIBLE FOR REFINING COAL IF BOTH OF**
29 **THE FOLLOWING APPLY:**

30 1. THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
31 OF REFINING THE COAL.

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

37 G. For the purposes of this section, "nonmetalliferous mineral
38 product" means oil, natural gas, limestone, sand, gravel or any other
39 nonmetalliferous mineral product, compound or combination of nonmetalliferous
40 mineral products.

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

42 42-5151. Definitions

43 In this article, unless the context otherwise requires:

44 1. "Ancillary services" means those services so designated in federal
45 energy regulatory commission order 888 adopted in 1996 that include the
46 services necessary to support the transmission of electricity from resources

1 to loads while maintaining reliable operation of the transmission system
2 according to good utility practice.

3 2. "Electric distribution service" means distributing electricity to
4 retail electric customers through the use of electric distribution
5 facilities.

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

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

13 5. "Electric utility services" means the business of providing
14 electric ancillary services, electric distribution services, electric
15 generation services, electric transmission services and other services
16 related to providing electricity.

17 6. "Electricity" means electric energy, electric capacity or electric
18 capacity and energy.

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

22 8. "Natural gas" means natural or artificial gas, and includes methane
23 and propane gas, the natural gas commodity, natural gas pipeline capacity or
24 natural gas commodity and pipeline capacity.

25 9. "Natural gas utility services" means the business of selling
26 natural gas or providing natural gas transportation services or other
27 services related to providing natural gas.

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

31 11. "Other services" includes metering, meter reading services, billing
32 and collecting services.

33 12. "Person" means an individual, firm, partnership, joint venture,
34 association, corporation, estate, trust, receiver or syndicate, this state or
35 a county, city, municipality, district or other political subdivision or
36 agency thereof.

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

41 14. "Purchase price" or "sales price" means the total amount for which
42 tangible personal property is sold, including any services that are a part of
43 the sale, valued in money, whether paid in money or otherwise, and any amount
44 for which credit is given to the purchaser by the seller without any
45 deduction on account of the cost of the property sold, materials used, labor

1 or services performed, interest charged, losses or other expenses, but does
2 not include:

3 (a) Discounts allowed and taken.

4 (b) Charges for labor or services in installing, remodeling or
5 repairing.

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

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

12 (e) The value of merchandise that is traded in on the purchase of new
13 or pre-owned merchandise when the trade-in allowance is deducted from the
14 sales price of the new or pre-owned merchandise before the completion of the
15 sale.

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

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

22 17. "Retailer" includes:

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

35 (b) A person who solicits orders for tangible personal property by
36 mail if the solicitations are substantial and recurring or if the retailer
37 benefits from any banking, financing, debt collection, telecommunication,
38 television shopping system, cable, optic, microwave or other communication
39 system or marketing activities occurring in this state or benefits from the
40 location in this state of authorized installation, servicing or repair
41 facilities.

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

1 19. "Solar energy device" means a system or series of mechanisms
2 designed primarily to provide heating, to provide cooling, to produce
3 electrical power, to produce mechanical power, to provide solar daylighting
4 or to provide any combination of the foregoing by means of collecting and
5 transferring solar generated energy into such uses by either active or
6 passive means, including wind generator systems that produce electricity.
7 Solar energy systems may also have the capability of storing solar energy for
8 future use. Passive systems shall clearly be designed as a solar energy
9 device, such as a trombe wall, and not merely as a part of a normal
10 structure, such as a window.

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

18 (a) THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
19 OF REFINING THE COAL.

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

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

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

36 (a) THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
37 OF REFINING THE COAL.

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

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

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

3 42-5159. Exemptions

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

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

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

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

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

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

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

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

43 8. Livestock, poultry, supplies, feed, salts, vitamins and other
44 additives for use or consumption in the businesses of farming, ranching and
45 feeding livestock or poultry, not including fertilizers, herbicides and

1 insecticides. For the purposes of this paragraph, "poultry" includes
2 ratites.

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

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

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

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

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

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

19 13. Tangible personal property purchased by:

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

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

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

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

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

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

43 (g) A person that is subject to tax under article 1 of this chapter by
44 reason of being engaged in business classified under the prime contracting
45 classification under section 42-5075, or a subcontractor working under the

1 control of a prime contractor, if the tangible personal property is any of
2 the following:

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

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

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

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

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

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

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

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

34 15. Tangible personal property sold by:

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

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

43 (c) A nonprofit organization that is exempt from taxation under
44 section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the
45 internal revenue code if the organization sponsors or operates a rodeo

1 featuring primarily farm and ranch animals and no part of the organization's
2 net earnings inures to the benefit of any private shareholder or individual.

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

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

10 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

16 (b) Public educational institutions.

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

20 33. Natural gas or liquefied petroleum gas used to propel a motor
21 vehicle.

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

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

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

44 37. A motor vehicle and any repair and replacement parts and tangible
45 personal property becoming a part of such motor vehicle sold to a motor

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

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

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

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

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

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

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

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

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

1 of public convenience and necessity or foreign air carrier permit for air
2 transportation to transport persons, property or United States mail in
3 intrastate, interstate or foreign commerce.

4 44. Alternative fuel vehicles if the vehicle was manufactured as a
5 diesel fuel vehicle and converted to operate on alternative fuel and
6 equipment that is installed in a conventional diesel fuel motor vehicle to
7 convert the vehicle to operate on an alternative fuel, as defined in section
8 1-215.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

45 (b) Machinery or equipment purchased to replace machinery or equipment
46 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:

45 1. Fees charged by a municipally owned utility to persons constructing
46 residential, commercial or industrial developments or connecting residential,

1 commercial or industrial developments to a municipal utility system or
2 systems if the fees are segregated and used only for capital expansion,
3 system enlargement or debt service of the utility system or systems.

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

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

10 1. "Aircraft" includes:

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

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

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

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

24 Sec. 6. Section 42-5159, Arizona Revised Statutes, as amended by Laws
25 2013, chapter 255, section 17, is amended to read:

26 42-5159. Exemptions

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

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

33 2. Tangible personal property the sale or use of which has already
34 been subjected to an excise tax at a rate equal to or exceeding the tax
35 imposed by this article under the laws of another state of the United States.
36 If the excise tax imposed by the other state is at a rate less than the tax
37 imposed by this article, the tax imposed by this article is reduced by the
38 amount of the tax already imposed by the other state.

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

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

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

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

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

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

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

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

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

35 12. Materials that are purchased by or for publicly funded libraries
36 including school district libraries, charter school libraries, community
37 college libraries, state university libraries or federal, state, county or
38 municipal libraries for use by the public as follows:

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

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

41 13. Tangible personal property purchased by:

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

45 (b) A hospital operated by this state or a political subdivision of
46 this state.

1 (c) A licensed nursing care institution or a licensed residential care
2 institution or a residential care facility operated in conjunction with a
3 licensed nursing care institution or a licensed kidney dialysis center, which
4 provides medical services, nursing services or health related services and is
5 not used or held for profit.

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

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

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

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

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

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

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

32 (i) A qualifying community health center as defined in section
33 42-5001.

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

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

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

1 used by the organization solely to provide residential apartment housing for
2 low income persons over sixty-two years of age in a facility that qualifies
3 for a federal housing subsidy.

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

9 15. Tangible personal property sold by:

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

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

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

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

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

30 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

36 (b) Public educational institutions.

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

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

42 34. Machinery, equipment, technology or related supplies that are only
43 useful to assist a person who is physically disabled as defined in section
44 46-191, has a developmental disability as defined in section 36-551 or has a
45 head injury as defined in section 41-3201 to be more independent and
46 functional.

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

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

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

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

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

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

39 (b) "Subcontract" means an agreement between a contractor and any
40 person who is not an employee of the contractor for furnishing of supplies or
41 services that, in whole or in part, are necessary to the performance of one
42 or more government contracts, or under which any portion of the contractor's
43 obligation under one or more government contracts is performed, undertaken or
44 assumed, and that includes provisions causing title to overhead materials or
45 other tangible personal property used in the performance of the subcontract

1 to pass to the government or that includes provisions incorporating such
2 title passing clauses in a government contract into the subcontract.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

12 (b) "Curriculum design or enhancement" means planning, implementing or
13 reporting on courses of study, lessons, assignments or other learning
14 activities.

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

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

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

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

32 (a) THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
33 OF REFINING THE COAL.

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

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

42 1. Machinery, or equipment, used directly in manufacturing,
43 processing, fabricating, job printing, refining or metallurgical operations.
44 The terms "manufacturing", "processing", "fabricating", "job printing",
45 "refining" and "metallurgical" as used in this paragraph refer to and include
46 those operations commonly understood within their ordinary meaning.

1 "Metallurgical operations" includes leaching, milling, precipitating,
2 smelting and refining.

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

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

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

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

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

26 7. Aircraft, navigational and communication instruments and other
27 accessories and related equipment sold to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

45 (ii) Over two-thirds of the transmissions, measured in megabytes,
46 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
46 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States

1 Code section 336) and the federal communications commission order issued
2 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does
3 not exempt any of the following:

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

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

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

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

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

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

23 2. Janitorial equipment and hand tools.

24 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19 1. "Aircraft" includes:

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

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

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

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

33 Sec. 7. Section 42-6004, Arizona Revised Statutes, as amended by Laws
34 2013, first special session, chapter 9, section 8, Laws 2013, first regular
35 session, chapter 27, section 2, chapter 120, section 2, chapter 153, section
36 2 and chapter 236, section 6, is amended to read:

37 42-6004. Exemption from municipal tax

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

40 1. Exhibition events in this state sponsored, conducted or operated by
41 a nonprofit organization that is exempt from taxation under section
42 501(c)(3), 501(c)(4) 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 2. Interstate telecommunications services, which include that portion
2 of telecommunications services, such as subscriber line service, allocable by
3 federal law to interstate telecommunications service.
- 4 3. Sales of warranty or service contracts.
- 5 4. Sales of motor vehicles to nonresidents of this state for use
6 outside this state if the vendor ships or delivers the motor vehicle to a
7 destination outside this state.
- 8 5. Interest on finance contracts.
- 9 6. Dealer documentation fees on the sales of motor vehicles.
- 10 7. Sales of food or other items purchased with United States
11 department of agriculture food stamp coupons issued under the food stamp act
12 of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under section
13 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661,
14 section 4302; 42 United States Code section 1786) but may impose such a tax
15 on other sales of food. If a city, town or special taxing district exempts
16 sales of food from its tax or imposes a different transaction privilege rate
17 on the gross proceeds of sales or gross income from sales of food and nonfood
18 items, it shall use the definition of food prescribed by rule adopted by the
19 department pursuant to section 42-5106.
- 20 8. Orthodontic devices dispensed by a dental professional who is
21 licensed under title 32, chapter 11 to a patient as part of the practice of
22 dentistry.
- 23 9. Sales of internet access services to the person's subscribers and
24 customers. For the purposes of this paragraph:
 - 25 (a) "Internet" means the computer and telecommunications facilities
26 that comprise the interconnected worldwide network of networks that employ
27 the transmission control protocol or internet protocol, or any predecessor or
28 successor protocol, to communicate information of all kinds by wire or radio.
 - 29 (b) "Internet access" means a service that enables users to access
30 content, information, electronic mail or other services over the internet.
31 Internet access does not include telecommunication services provided by a
32 common carrier.
- 33 10. The gross proceeds of sales or gross income retained by the Arizona
34 exposition and state fair board from ride ticket sales at the annual Arizona
35 state fair.
- 36 11. Through August 31, 2014, sales of Arizona centennial medallions by
37 the historical advisory commission.
- 38 12. Leasing real property between affiliated companies, businesses,
39 persons or reciprocal insurers. For the purposes of this paragraph:
 - 40 (a) "Affiliated companies, businesses, persons or reciprocal insurers"
41 means the lessor holds a controlling interest in the lessee, the lessee holds
42 a controlling interest in the lessor, an affiliated entity holds a
43 controlling interest in both the lessor and the lessee or an unrelated person
44 holds a controlling interest in both the lessor and lessee.

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

4 (c) "Reciprocal insurer" has the same meaning prescribed in section
5 20-762.

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

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

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

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

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

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

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

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

36 (i) Assembling the machinery, equipment or other tangible personal
37 property.

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

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

43 (iv) Stabilizing or protecting the machinery, equipment or other
44 tangible personal property during operation by bolting, burying or performing
45 other dissimilar nonpermanent connections to either real property or real
46 property improvements.

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

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

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

19 (a) THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
20 OF REFINING THE COAL.

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

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

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

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

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

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

44 4. Incarcerating or detaining in a privately operated prison, jail or
45 detention facility prisoners who are under the jurisdiction of the United

1 States, this state or any other state or a political subdivision of this
2 state or of any other state.

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

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

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

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

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

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

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

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

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

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

38 Sec. 8. Section 42-6004, Arizona Revised Statutes, as amended by Laws
39 2013, chapter 255, section 20, is amended to read:

40 42-6004. Exemption from municipal tax

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

43 1. Exhibition events in this state sponsored, conducted or operated by
44 a nonprofit organization that is exempt from taxation under section
45 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the
46 organization is associated with a major league baseball team or a national

1 touring professional golfing association and no part of the organization's
2 net earnings inures to the benefit of any private shareholder or individual.

3 2. Interstate telecommunications services, which include that portion
4 of telecommunications services, such as subscriber line service, allocable by
5 federal law to interstate telecommunications service.

6 3. Sales of warranty or service contracts.

7 4. Sales of motor vehicles to nonresidents of this state for use
8 outside this state if the motor vehicle dealer ships or delivers the motor
9 vehicle to a destination outside this state.

10 5. Interest on finance contracts.

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

12 7. Sales of food or other items purchased with United States
13 department of agriculture food stamp coupons issued under the food stamp act
14 of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under section
15 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661,
16 section 4302; 42 United States Code section 1786) but may impose such a tax
17 on other sales of food. If a city, town or special taxing district exempts
18 sales of food from its tax or imposes a different transaction privilege rate
19 on the gross proceeds of sales or gross income from sales of food and nonfood
20 items, it shall use the definition of food prescribed by rule adopted by the
21 department pursuant to section 42-5106.

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

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

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

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

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

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

40 (a) "Affiliated corporation" means a corporation that meets one of the
41 following conditions:

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

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

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

4 (iv) The corporation is at least eighty per cent owned or controlled
5 by a corporation that is at least eighty per cent owned or controlled by a
6 reciprocal insurer.

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

10 (c) "Reciprocal insurer" has the same meaning prescribed in section
11 20-762.

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

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

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

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

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

26 (a) THE TRANSFER OF TITLE OR POSSESSION OF THE COAL IS FOR THE PURPOSE
27 OF REFINING THE COAL.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

45 Sec. 9. Retroactivity

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

3 Sec. 10. Effective date

4 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2013,
5 chapter 255, section 13 and this act, section 42-5159, Arizona Revised
6 Statutes, as amended by Laws 2013, chapter 255, section 17 and this act and
7 section 42-6004, Arizona Revised Statutes, as amended by Laws 2013, chapter
8 255, section 20 and this act are effective from and after December 31, 2014.

APPROVED BY THE GOVERNOR APRIL 16, 2014.

FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 17, 2014.