

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

**CHAPTER 276**  
**HOUSE BILL 2701**

AN ACT

AMENDING SECTION 42-5001, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST REGULAR SESSION, CHAPTER 120, SECTION 1, AND CHAPTER 233, SECTION 1 AND LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 5; REPEALING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 13; AMENDING SECTIONS 42-5065 AND 42-5066, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 7; REPEALING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 17; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, FIRST REGULAR SESSION, CHAPTER 27, SECTION 2, CHAPTER 120, SECTION 2, CHAPTER 153, SECTION 2 AND CHAPTER 236, SECTION 6 AND LAWS 2013, FIRST SPECIAL SESSION, CHAPTER 9, SECTION 8; REPEALING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2013, CHAPTER 255, SECTION 20; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:  
2 Section 1. Section 42-5001, Arizona Revised Statutes, is amended to  
3 read:  
4 42-5001. Definitions  
5 In this article and article 2 of this chapter, unless the context  
6 otherwise requires:  
7 1. "Business" includes all activities or acts, personal or corporate,  
8 engaged in or caused to be engaged in with the object of gain, benefit or  
9 advantage, either directly or indirectly, but does not include either:  
10 (a) Casual activities or sales.  
11 (b) The transfer of electricity from a solar photovoltaic generation  
12 system to an electric utility distribution system.  
13 2. "Distribution base" means the portion of the revenues derived from  
14 the tax levied by this article and articles 5 and 8 of this chapter  
15 designated for distribution to counties, municipalities and other purposes  
16 according to section 42-5029, subsection D.  
17 3. "Engaging", when used with reference to engaging or continuing in  
18 business, includes the exercise of corporate or franchise powers.  
19 4. "Gross income" means the gross receipts of a taxpayer derived from  
20 trade, business, commerce or sales and the value proceeding or accruing from  
21 the sale of tangible personal property or service, or both, and without any  
22 deduction on account of losses.  
23 5. "Gross proceeds of sales" means the value proceeding or accruing  
24 from the sale of tangible personal property without any deduction on account  
25 of the cost of property sold, expense of any kind or losses, but cash  
26 discounts allowed and taken on sales are not included as gross income.  
27 6. "Gross income" and "gross proceeds of sales" do not include goods,  
28 wares or merchandise, or value thereof, returned by customers if the sale  
29 price is refunded either in cash or by credit, nor the value of merchandise  
30 traded in on the purchase of new merchandise when the trade-in allowance is  
31 deducted from the sales price of the new merchandise before completion of the  
32 sale.  
33 7. "Gross receipts" means the total amount of the sale, lease or  
34 rental price, as the case may be, of the retail sales of retailers, including  
35 any services that are a part of the sales, valued in money, whether received  
36 in money or otherwise, including all receipts, cash, credits and property of  
37 every kind or nature, and any amount for which credit is allowed by the  
38 seller to the purchaser without any deduction from the amount on account of  
39 the cost of the property sold, materials used, labor or service performed,  
40 interest paid, losses or any other expense. Gross receipts do not include  
41 cash discounts allowed and taken nor the sale price of property returned by  
42 customers if the full sale price is refunded either in cash or by credit.  
43 8. "Person" or "company" includes an individual, firm, partnership,  
44 joint venture, association, corporation, estate or trust, this state, any  
45 county, city, town, district, other than a school district, or other

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

3 9. "Qualifying community health center":

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5           42-5061. Retail classification; definitions

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

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

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

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

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

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

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

28           7. The sale of stocks and bonds.

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

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

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

36           11. Prescription eyeglasses or contact lenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 25. Tangible personal property sold to:

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

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

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

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

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

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

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

45 26. Magazines or other periodicals or other publications by this state  
46 to encourage tourist travel.

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

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

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

11           28. The sale of a motor vehicle to:

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

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

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

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

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

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

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

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

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

9           ~~36.~~ 35. Sales of natural gas or liquefied petroleum gas used to propel  
10 a motor vehicle.

11           ~~37.~~ 36. Paper machine clothing, such as forming fabrics and dryer  
12 felts, sold to a paper manufacturer and directly used or consumed in paper  
13 manufacturing.

14           ~~38.~~ 37. Coal, petroleum, coke, natural gas, virgin fuel oil and  
15 electricity sold to a qualified environmental technology manufacturer,  
16 producer or processor as defined in section 41-1514.02 and directly used or  
17 consumed in the generation or provision of on-site power or energy solely for  
18 environmental technology manufacturing, producing or processing or  
19 environmental protection. This paragraph shall apply for twenty full  
20 consecutive calendar or fiscal years from the date the first paper  
21 manufacturing machine is placed in service. In the case of an environmental  
22 technology manufacturer, producer or processor who does not manufacture  
23 paper, the time period shall begin with the date the first manufacturing,  
24 processing or production equipment is placed in service.

25           ~~39.~~ 38. Sales of liquid, solid or gaseous chemicals used in  
26 manufacturing, processing, fabricating, mining, refining, metallurgical  
27 operations, research and development and, beginning on January 1, 1999,  
28 printing, if using or consuming the chemicals, alone or as part of an  
29 integrated system of chemicals, involves direct contact with the materials  
30 from which the product is produced for the purpose of causing or permitting a  
31 chemical or physical change to occur in the materials as part of the  
32 production process. This paragraph does not include chemicals that are used  
33 or consumed in activities such as packaging, storage or transportation but  
34 does not affect any deduction for such chemicals that is otherwise provided  
35 by this section. For the purposes of this paragraph, "printing" means a  
36 commercial printing operation and includes job printing, engraving,  
37 embossing, copying and bookbinding.

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

44           (a) "Personal property liquidation transaction" means a sale of  
45 personal property made by a personal property liquidator acting solely on  
46 behalf of the owner of the personal property sold at the dwelling of the

1 owner or on the death of any owner, on behalf of the surviving spouse, if  
2 any, any devisee or heir or the personal representative of the estate of the  
3 deceased, if one has been appointed.

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

6 ~~41-~~ 40. Sales of food, drink and condiment for consumption within the  
7 premises of any prison, jail or other institution under the jurisdiction of  
8 the state department of corrections, the department of public safety, the  
9 department of juvenile corrections or a county sheriff.

10 ~~42-~~ 41. A motor vehicle and any repair and replacement parts and  
11 tangible personal property becoming a part of such motor vehicle sold to a  
12 motor carrier who is subject to a fee prescribed in title 28, chapter 16,  
13 article 4 and who is engaged in the business of leasing or renting such  
14 property.

15 ~~43-~~ 42. Livestock and poultry feed, salts, vitamins and other  
16 additives for livestock or poultry consumption that are sold to persons who  
17 are engaged in producing livestock, poultry, or livestock or poultry products  
18 or who are engaged in feeding livestock or poultry commercially. For the  
19 purposes of this paragraph, "poultry" includes ratites.

20 ~~44-~~ 43. Sales of implants used as growth promotants and injectable  
21 medicines, not already exempt under paragraph 8 of this subsection, for  
22 livestock or poultry owned by or in possession of 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 ~~45-~~ 44. Sales of motor vehicles at auction to nonresidents of this  
27 state for use outside this state if the vehicles are shipped or delivered out  
28 of this state, regardless of where title to the motor vehicles passes or its  
29 free on board point.

30 ~~46-~~ 45. Tangible personal property sold to a person engaged in  
31 business and subject to tax under the transient lodging classification if the  
32 tangible personal property is a personal hygiene item or articles used by  
33 human beings for food, drink or condiment, except alcoholic beverages, that  
34 are furnished without additional charge to and intended to be consumed by the  
35 transient during the transient's occupancy.

36 ~~47-~~ 46. Sales of alternative fuel, as defined in section 1-215, to a  
37 used oil fuel burner who has received a permit to burn used oil or used oil  
38 fuel under section 49-426 or 49-480.

39 ~~48-~~ 47. Sales of materials that are purchased by or for publicly  
40 funded libraries including school district libraries, charter school  
41 libraries, community college libraries, state university libraries or  
42 federal, state, county or municipal libraries for use by the public as  
43 follows:

1 (a) Printed or photographic materials, beginning August 7, 1985.  
2 (b) Electronic or digital media materials, beginning July 17, 1994.  
3 ~~49.~~ 48. Tangible personal property sold to a commercial airline and  
4 consisting of food, beverages and condiments and accessories used for serving  
5 the food and beverages, if those items are to be provided without additional  
6 charge to passengers for consumption in flight. For the purposes of this  
7 paragraph, "commercial airline" means a person holding a federal certificate  
8 of public convenience and necessity or foreign air carrier permit for air  
9 transportation to transport persons, property or United States mail in  
10 intrastate, interstate or foreign commerce.  
11 ~~50.~~ 49. Sales of alternative fuel vehicles if the vehicle was  
12 manufactured as a diesel fuel vehicle and converted to operate on alternative  
13 fuel and equipment that is installed in a conventional diesel fuel motor  
14 vehicle to convert the vehicle to operate on an alternative fuel, as defined  
15 in section 1-215.  
16 ~~51.~~ 50. Sales of any spirituous, vinous or malt liquor by a person  
17 that is licensed in this state as a wholesaler by the department of liquor  
18 licenses and control pursuant to title 4, chapter 2, article 1.  
19 ~~52.~~ 51. Sales of tangible personal property to be incorporated or  
20 installed as part of environmental response or remediation activities under  
21 section 42-5075, subsection B, paragraph 6.  
22 ~~53.~~ 52. Sales of tangible personal property by a nonprofit  
23 organization that is exempt from taxation under section 501(c)(6) of the  
24 internal revenue code if the organization produces, organizes or promotes  
25 cultural or civic related festivals or events and no part of the  
26 organization's net earnings inures to the benefit of any private shareholder  
27 or individual.  
28 ~~54.~~ 53. Through August 31, 2014, sales of Arizona centennial  
29 medallions by the historical advisory commission.  
30 ~~55.~~ 54. Application services that are designed to assess or test  
31 student learning or to promote curriculum design or enhancement purchased by  
32 or for any school district, charter school, community college or state  
33 university. For the purposes of this paragraph:  
34 (a) "Application services" means software applications provided  
35 remotely using hypertext transfer protocol or another network protocol.  
36 (b) "Curriculum design or enhancement" means planning, implementing or  
37 reporting on courses of study, lessons, assignments or other learning  
38 activities.  
39 ~~56.~~ 55. Sales of motor vehicle fuel and use fuel to a qualified  
40 business under section 41-1516 for off-road use in harvesting, processing or  
41 transporting qualifying forest products removed from qualifying projects as  
42 defined in section 41-1516.  
43 ~~57.~~ 56. Sales of repair parts installed in equipment used directly by  
44 a qualified business under section 41-1516 in harvesting, processing or  
45 transporting qualifying forest products removed from qualifying projects as  
46 defined in section 41-1516.

1           ~~58-~~ 57. Sales or other transfers of renewable energy credits or any  
2 other unit created to track energy derived from renewable energy resources.  
3 For the purposes of this paragraph, "renewable energy credit" means a unit  
4 created administratively by the corporation commission or governing body of a  
5 public power utility to track kilowatt hours of electricity derived from a  
6 renewable energy resource or the kilowatt hour equivalent of conventional  
7 energy resources displaced by distributed renewable energy resources.

8           ~~59-~~ 58. Computer data center equipment purchased by the owner,  
9 operator or qualified colocation tenant of the computer data center or an  
10 authorized agent of the owner, operator or qualified colocation tenant during  
11 the qualification period for use in a computer data center that is certified  
12 by the Arizona commerce authority under section 41-1519. To qualify for this  
13 deduction, at the time of purchase, the owner, operator or qualified  
14 colocation tenant must present to the retailer its certificate that is issued  
15 pursuant to section 41-1519 and that establishes its qualification for the  
16 deduction. For the purposes of this paragraph, "computer data center",  
17 "computer data center equipment", "qualification period" and "qualified  
18 colocation tenant" have the same meanings prescribed in section 41-1519.

19           ~~60-~~ 59. Orthodontic devices dispensed by a dental professional who is  
20 licensed under title 32, chapter 11 to a patient as part of the practice of  
21 dentistry.

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

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

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

39           3. Tangible personal property sold to persons engaged in business  
40 classified under the telecommunications classification and consisting of  
41 central office switching equipment, switchboards, private branch exchange  
42 equipment, microwave radio equipment and carrier equipment including optical  
43 fiber, coaxial cable and other transmission media ~~which~~ THAT are components  
44 of carrier systems.

45           4. Machinery, equipment or transmission lines used directly in  
46 producing or transmitting electrical power, but not including distribution.

1 Transformers and control equipment used at transmission substation sites  
2 constitute equipment used in producing or transmitting electrical power.

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

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

10 7. Aircraft, navigational and communication instruments and other  
11 accessories and related equipment sold to:

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

18 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 16. Clean rooms that are used for manufacturing, processing,  
44 fabrication or research and development, as defined in paragraph 14 of this  
45 subsection, of semiconductor products. For the purposes of this paragraph,  
46 "clean room" means all property that comprises or creates an environment

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

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

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

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

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

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

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

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

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

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

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

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

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

13           2. Janitorial equipment and hand tools.

14           3. Office equipment, furniture and supplies.

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

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

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

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

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

27           D. In addition to the deductions from the tax base prescribed by  
28 subsection A of this section, there shall be deducted from the tax base the  
29 gross proceeds of sales or gross income derived from sales of machinery,  
30 equipment, materials and other tangible personal property used directly and  
31 predominantly to construct a qualified environmental technology  
32 manufacturing, producing or processing facility as described in section  
33 41-1514.02. This subsection applies for ten full consecutive calendar or  
34 fiscal years after the start of initial construction.

35           E. In computing the tax base, gross proceeds of sales or gross income  
36 from retail sales of heavy trucks and trailers does not include any amount  
37 attributable to federal excise taxes imposed by 26 United States Code section  
38 4051.

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

43           G. If a person is engaged in an occupation or business to which  
44 subsection A of this section applies, the person's books shall be kept so as  
45 to show separately the gross proceeds of sales of tangible personal property  
46 and the gross income from sales of services, and if not so kept the tax shall

1 be imposed on the total of the person's gross proceeds of sales of tangible  
2 personal property and gross income from services.

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

9 I. A person who engages in manufacturing, baling, crating, boxing,  
10 barreling, canning, bottling, sacking, preserving, processing or otherwise  
11 preparing for sale or commercial use any livestock, agricultural or  
12 horticultural product or any other product, article, substance or commodity  
13 and who sells the product of such business at retail in this state is deemed,  
14 as to such sales, to be engaged in business classified under the retail  
15 classification. This subsection does not apply to businesses classified  
16 under the:

- 17 1. Transporting classification.
- 18 2. Utilities classification.
- 19 3. Telecommunications classification.
- 20 4. Pipeline classification.
- 21 5. Private car line classification.
- 22 6. Publication classification.
- 23 7. Job printing classification.
- 24 8. Prime contracting classification.
- 25 ~~9. Owner builder sales classification.~~
- 26 ~~10.~~ 9. Restaurant classification.

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

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

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

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

41 4. Sales of overhead materials or other tangible personal property to  
42 a manufacturer, modifier, assembler or repairer if the gross proceeds of  
43 sales or gross income derived from the property by the manufacturer,  
44 modifier, assembler or repairer will be exempt under paragraph 3 of this  
45 subsection.

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

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

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

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

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

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

20 O. In computing the tax base in the case of the sale or transfer of  
21 wireless telecommunications equipment as an inducement to a customer to enter  
22 into or continue a contract for telecommunications services that are taxable  
23 under section 42-5064, gross proceeds of sales or gross income does not  
24 include any sales commissions or other compensation received by the retailer  
25 as a result of the customer entering into or continuing a contract for the  
26 telecommunications services.

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

32 Q. Retail sales of prepaid calling cards or prepaid authorization  
33 numbers for telecommunications services, including sales of reauthorization  
34 of a prepaid card or authorization number, are subject to tax under this  
35 section.

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

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

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

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

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

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

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

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

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

33 V. For the purposes of this section:

34 1. "Aircraft" includes:

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

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

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

44 3. "Selling at retail" means a sale for any purpose other than for  
45 resale in the regular course of business in the form of tangible personal  
46 property, but transfer of possession, lease and rental as used in the

1 definition of sale mean only such transactions as are found on investigation  
2 to be in lieu of sales as defined without the words lease or rental.

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

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

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

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

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

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

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

33 Sec. 3. Repeal

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

36 Sec. 4. Section 42-5065, Arizona Revised Statutes, is amended to read:  
37 42-5065. Publication classification; definition

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

41 1. Manufacturing or publishing books.

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

44 B. The tax base for the publication classification is the gross  
45 proceeds of sales or gross income derived from the business, including the

1 gross income derived from notices and subscription income, but the following  
2 shall be deducted from the tax base:

3 1. Gross income derived from advertising.

4 2. Gross proceeds of sales or gross income derived from sales of  
5 personal property to:

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

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

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

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

17 Sec. 5. Section 42-5066, Arizona Revised Statutes, is amended to read:  
18 [42-5066. Job printing classification](#)

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

21 B. The tax base for the job printing classification is the gross  
22 proceeds of sales or gross income derived from the business, but the gross  
23 proceeds of sales or gross income derived from the following shall be  
24 deducted from the tax base:

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

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

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

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

34 3. Sales of personal property to:

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

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

39 (c) [A QUALIFYING HEALTH SCIENCES EDUCATIONAL INSTITUTION AS DEFINED IN](#)  
40 [SECTION 42-5001.](#)

41 4. Sales of postage and freight except that the amount deducted shall  
42 not exceed the actual postage and freight expense that is paid to the United  
43 States postal service or a commercial delivery service and that is separately  
44 itemized by the taxpayer on the customer's invoice and in the taxpayer's  
45 records.

1           Sec. 6. 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 THAT 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 (m) [A QUALIFYING HEALTH SCIENCES EDUCATIONAL INSTITUTION AS DEFINED IN](#)  
30 [SECTION 42-5001.](#)

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

36 15. Tangible personal property sold by:

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

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

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

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

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

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

11 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

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

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

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

44 30. Paper machine clothing, such as forming fabrics and dryer felts,  
45 purchased by a paper manufacturer and directly used or consumed in paper  
46 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~~ ON 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 B. In addition to the exemptions allowed by subsection A of this  
22 section, the following categories of tangible personal property are also  
23 exempt:

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

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

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

43 4. Machinery, equipment or transmission lines used directly in  
44 producing or transmitting electrical power, but not including distribution.  
45 Transformers and control equipment used at transmission substation sites  
46 constitute equipment used in producing or transmitting electrical power.

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

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

8           7. Aircraft, navigational and communication instruments and other  
9 accessories and related equipment sold to:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

44 (a) Includes the integrated systems, fixtures, piping, movable  
45 partitions, lighting and all property that is necessary or adapted to reduce  
46 contamination or to control airflow, temperature, humidity, chemical purity

1 or other environmental conditions or manufacturing tolerances, as well as the  
2 production machinery and equipment operating in conjunction with the clean  
3 room environment.

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

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

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

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

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

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

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

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

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

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

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

5           2. Janitorial equipment and hand tools.

6           3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

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

1           1. "Aircraft" includes:

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

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

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

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

15           Sec. 7. Repeal

16           Section 42-5159, Arizona Revised Statutes, as amended by Laws 2013,  
17 chapter 255, section 17, is repealed.

18           Sec. 8. Section 42-6004, Arizona Revised Statutes, as amended by Laws  
19 2013, first regular session, chapter 27, section 2, chapter 120, section 2,  
20 chapter 153, section 2 and chapter 236, section 6 and Laws 2013, first  
21 special session, chapter 9, section 8, is amended to read:

22           42-6004. Exemption from municipal tax

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

25           1. Exhibition events in this state sponsored, conducted or operated by  
26 a nonprofit organization that is exempt from taxation under section  
27 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the  
28 organization is associated with a major league baseball team or a national  
29 touring professional golfing association and no part of the organization's  
30 net earnings inures to the benefit of any private shareholder or individual.

31           2. Interstate telecommunications services, which include that portion  
32 of telecommunications services, such as subscriber line service, allocable by  
33 federal law to interstate telecommunications service.

34           3. Sales of warranty or service contracts.

35           4. Sales of motor vehicles to nonresidents of this state for use  
36 outside this state if the ~~vendor~~ **MOTOR VEHICLE DEALER** ships or delivers the  
37 motor vehicle to a destination outside this state.

38           5. Interest on finance contracts.

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

40           7. Sales of food or other items purchased with United States  
41 department of agriculture food stamp coupons issued under the food stamp act  
42 of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under section  
43 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661,  
44 section 4302; 42 United States Code section 1786) but may impose such a tax  
45 on other sales of food. If a city, town or special taxing district exempts  
46 sales of food from its tax or imposes a different transaction privilege rate

1 on the gross proceeds of sales or gross income from sales of food and nonfood  
2 items, it shall use the definition of food prescribed by rule adopted by the  
3 department pursuant to section 42-5106.

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

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

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

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

17 10. The gross proceeds of sales or gross income retained by the Arizona  
18 exposition and state fair board from ride ticket sales at the annual Arizona  
19 state fair.

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

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

24 (a) "Affiliated companies, businesses, persons or reciprocal insurers"  
25 means the lessor holds a controlling interest in the lessee, the lessee holds  
26 a controlling interest in the lessor, an affiliated entity holds a  
27 controlling interest in both the lessor and the lessee or an unrelated person  
28 holds a controlling interest in both the lessor and lessee.

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

32 (c) "Reciprocal insurer" has the same meaning prescribed in section  
33 20-762.

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

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

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

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

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

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

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

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

18 (i) Assembling the machinery, equipment or other tangible personal  
19 property.

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

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

25 (iv) Stabilizing or protecting the machinery, equipment or other  
26 tangible personal property during operation by bolting, burying or performing  
27 other dissimilar nonpermanent connections to either real property or real  
28 property improvements.

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

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

44 16. THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM A CONTRACT  
45 WITH THE OWNER OF REAL PROPERTY FOR THE MAINTENANCE, REPAIR OR REPLACEMENT OF

1 EXISTING PROPERTY IS NOT SUBJECT TO TAX IF THE CONTRACT DOES NOT INCLUDE  
2 MODIFICATION ACTIVITIES. FOR THE PURPOSES OF THIS PARAGRAPH:

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

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

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

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

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

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

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

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

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

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

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

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

40 (b) The attributable amount is equal to the total amount of  
41 development fees paid by the taxpayer or by a contractor providing services  
42 to the taxpayer and the total development fees credited in exchange for the  
43 construction of, contribution to or dedication of real property for providing  
44 public infrastructure, public safety or other public services necessary to  
45 the development. The real property must be the subject of the development  
46 fees.

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

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

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

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

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

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

21 Sec. 9. Repeal

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

24 Sec. 10. Effective dates

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

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

32 C. Section 42-6004, Arizona Revised Statutes, as amended by Laws 2013,  
33 first regular session, chapter 27, section 2, chapter 120, section 2, chapter  
34 153, section 2 and chapter 236, section 6 and Laws 2013, first special  
35 session, chapter 9, section 8 and this act, is effective from and after  
36 December 31, 2014.

APPROVED BY THE GOVERNOR APRIL 30, 2014.

FILED IN THE OFFICE OF THE SECRETARY OF STATE APRIL 30, 2014.