

REFERENCE TITLE: tax exemptions, deductions, credits; sunset

State of Arizona
Senate
Fifty-second Legislature
First Regular Session
2015

SB 1409

Introduced by
Senators Farley, Hobbs: Bradley

AN ACT

AMENDING SECTIONS 42-2003, 42-5016 AND 42-5017, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5041; AMENDING SECTIONS 42-5061, 42-5062, 42-5063, 42-5064, 42-5065, 42-5066, 42-5070, 42-5071, 42-5072, 42-5073, 42-5074 AND 42-5075, ARIZONA REVISED STATUTES; REPEALING TITLE 42, CHAPTER 5, ARTICLE 3, ARIZONA REVISED STATUTES; AMENDING SECTIONS 42-5159 AND 43-221, ARIZONA REVISED STATUTES; REPEALING SECTION 43-222, ARIZONA REVISED STATUTES; PROVIDING FOR RENUMBERING; AMENDING SECTION 43-222, ARIZONA REVISED STATUTES, AS RENUMBERED; AMENDING TITLE 43, CHAPTER 2, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTIONS 43-223.17, 43-223.18, 43-223.19, 43-223.20, 43-223.21, 43-223.22, 43-223.23, 43-223.24, 43-223.25 AND 43-223.26; RELATING TO TAX EXEMPTIONS, DEDUCTIONS AND CREDITS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-2003, Arizona Revised Statutes, is amended to
3 read:

4 42-2003. Authorized disclosure of confidential information

5 A. Confidential information relating to:

6 1. A taxpayer may be disclosed to the taxpayer, its successor in
7 interest or a designee of the taxpayer who is authorized in writing by the
8 taxpayer. A principal corporate officer of a parent corporation may execute
9 a written authorization for a controlled subsidiary.

10 2. A corporate taxpayer may be disclosed to any principal officer, any
11 person designated by a principal officer or any person designated in a
12 resolution by the corporate board of directors or other similar governing
13 body.

14 3. A partnership may be disclosed to any partner of the partnership.
15 This exception does not include disclosure of confidential information of a
16 particular partner unless otherwise authorized.

17 4. An estate may be disclosed to the personal representative of the
18 estate and to any heir, next of kin or beneficiary under the will of the
19 decedent if the department finds that the heir, next of kin or beneficiary
20 has a material interest which will be affected by the confidential
21 information.

22 5. A trust may be disclosed to the trustee or trustees, jointly or
23 separately, and to the grantor or any beneficiary of the trust if the
24 department finds that the grantor or beneficiary has a material interest that
25 will be affected by the confidential information.

26 6. Any taxpayer may be disclosed if the taxpayer has waived any rights
27 to confidentiality either in writing or on the record in any administrative
28 or judicial proceeding.

29 7. The name and taxpayer identification numbers of persons issued
30 direct payment permits may be publicly disclosed.

31 B. Confidential information may be disclosed to:

32 1. Any employee of the department whose official duties involve tax
33 administration.

34 2. The office of the attorney general solely for its use in
35 preparation for, or in an investigation that may result in, any proceeding
36 involving tax administration before the department or any other agency or
37 board of this state, or before any grand jury or any state or federal court.

38 3. The department of liquor licenses and control for its use in
39 determining whether a spirituous liquor licensee has paid all transaction
40 privilege taxes and affiliated excise taxes incurred as a result of the sale
41 of spirituous liquor, as defined in section 4-101, at the licensed
42 establishment and imposed on the licensed establishments by this state and
43 its political subdivisions.

44 4. Other state tax officials whose official duties require the
45 disclosure for proper tax administration purposes if the information is

1 sought in connection with an investigation or any other proceeding conducted
2 by the official. Any disclosure is limited to information of a taxpayer who
3 is being investigated or who is a party to a proceeding conducted by the
4 official.

5 5. The following agencies, officials and organizations, if they grant
6 substantially similar privileges to the department for the type of
7 information being sought, pursuant to statute and a written agreement between
8 the department and the foreign country, agency, state, Indian tribe or
9 organization:

10 (a) The United States internal revenue service, alcohol and tobacco
11 tax and trade bureau of the United States treasury, United States bureau of
12 alcohol, tobacco, firearms and explosives of the United States department of
13 justice, United States drug enforcement agency and federal bureau of
14 investigation.

15 (b) A state tax official of another state.

16 (c) An organization of states, federation of tax administrators or
17 multistate tax commission that operates an information exchange for tax
18 administration purposes.

19 (d) An agency, official or organization of a foreign country with
20 responsibilities that are comparable to those listed in subdivision (a), (b)
21 or (c) of this paragraph.

22 (e) An agency, official or organization of an Indian tribal government
23 with responsibilities comparable to the responsibilities of the agencies,
24 officials or organizations identified in subdivision (a), (b) or (c) of this
25 paragraph.

26 6. The auditor general, in connection with any audit of the department
27 subject to the restrictions in section 42-2002, subsection D.

28 7. Any person to the extent necessary for effective tax administration
29 in connection with:

30 (a) The processing, storage, transmission, destruction and
31 reproduction of the information.

32 (b) The programming, maintenance, repair, testing and procurement of
33 equipment for purposes of tax administration.

34 (c) The collection of the taxpayer's civil liability.

35 8. The office of administrative hearings relating to taxes
36 administered by the department pursuant to section 42-1101, but the
37 department shall not disclose any confidential information:

38 (a) Regarding income tax or withholding tax.

39 (b) On any tax issue relating to information associated with the
40 reporting of income tax or withholding tax.

41 9. The United States treasury inspector general for tax administration
42 for the purpose of reporting a violation of internal revenue code section
43 7213A (26 United States Code section 7213A), unauthorized inspection of
44 returns or return information.

1 10. The financial management service of the United States treasury
2 department for use in the treasury offset program.

3 11. The United States treasury department or its authorized agent for
4 use in the state income tax levy program and in the electronic federal tax
5 payment system.

6 12. The Arizona commerce authority for its use in:

7 (a) Qualifying renewable energy operations for the tax incentives
8 under sections 42-12006, 43-1083.01 and 43-1164.01.

9 (b) Qualifying businesses with a qualified facility for income tax
10 credits under sections 43-1083.03 and 43-1164.04.

11 (c) Fulfilling its annual reporting responsibility pursuant to section
12 41-1511, subsections U and V and section 41-1512, subsections U and V.

13 (d) Certifying computer data centers for tax relief under section
14 41-1519.

15 13. A prosecutor for purposes of section 32-1164, subsection C.

16 14. The state fire marshal for use in determining compliance with and
17 enforcing title 41, chapter 16, article 3.1.

18 15. The department of transportation for its use in administering
19 taxes, surcharges and penalties prescribed by title 28.

20 16. The Arizona health care cost containment system administration for
21 its use in administering nursing facility provider assessments.

22 C. Confidential information may be disclosed in any state or federal
23 judicial or administrative proceeding pertaining to tax administration
24 pursuant to the following conditions:

25 1. One or more of the following circumstances must apply:

26 (a) The taxpayer is a party to the proceeding.

27 (b) The proceeding arose out of, or in connection with, determining
28 the taxpayer's civil or criminal liability, or the collection of the
29 taxpayer's civil liability, with respect to any tax imposed under this title
30 or title 43.

31 (c) The treatment of an item reflected on the taxpayer's return is
32 directly related to the resolution of an issue in the proceeding.

33 (d) Return information directly relates to a transactional
34 relationship between a person who is a party to the proceeding and the
35 taxpayer and directly affects the resolution of an issue in the proceeding.

36 2. Confidential information may not be disclosed under this subsection
37 if the disclosure is prohibited by section 42-2002, subsection C or D.

38 D. Identity information may be disclosed for purposes of notifying
39 persons entitled to tax refunds if the department is unable to locate the
40 persons after reasonable effort.

41 E. The department, on the request of any person, shall provide the
42 names and addresses of bingo licensees as defined in section 5-401, verify
43 whether or not a person has a privilege license and number, a tobacco product
44 distributor's license and number or a withholding license and number or
45 disclose the information to be posted on the department's website or

1 otherwise publicly accessible pursuant to section 42-1124, subsection F and
2 section 42-3201, subsection A.

3 F. A department employee, in connection with the official duties
4 relating to any audit, collection activity or civil or criminal
5 investigation, may disclose return information to the extent that disclosure
6 is necessary to obtain information that is not otherwise reasonably
7 available. These official duties include the correct determination of and
8 liability for tax, the amount to be collected or the enforcement of other
9 state tax revenue laws.

10 G. If an organization is exempt from this state's income tax as
11 provided in section 43-1201 for any taxable year, the name and address of the
12 organization and the application filed by the organization on which the
13 department made its determination for exemption together with any papers
14 submitted in support of the application and any letter or document issued by
15 the department concerning the application are open to public inspection.

16 H. Confidential information relating to transaction privilege tax, use
17 tax, severance tax, jet fuel excise and use tax and any other tax collected
18 by the department on behalf of any jurisdiction may be disclosed to any
19 county, city or town tax official if the information relates to a taxpayer
20 who is or may be taxable by a county, city or town or who may be subject to
21 audit by the department pursuant to section 42-6002. Any taxpayer
22 information released by the department to the county, city or town:

23 1. May only be used for internal purposes, including audits.

24 2. May not be disclosed to the public in any manner that does not
25 comply with confidentiality standards established by the department. The
26 county, city or town shall agree in writing with the department that any
27 release of confidential information that violates the confidentiality
28 standards adopted by the department will result in the immediate suspension
29 of any rights of the county, city or town to receive taxpayer information
30 under this subsection.

31 I. The department may disclose statistical information gathered from
32 confidential information if it does not disclose confidential information
33 attributable to any one taxpayer. The department may disclose statistical
34 information gathered from confidential information, even if it discloses
35 confidential information attributable to a taxpayer, to:

36 1. The state treasurer in order to comply with the requirements of
37 section 42-5029, subsection A, paragraph 3.

38 2. The joint legislative income tax credit [SUNSET](#) review committee and
39 the joint legislative budget committee staff in order to comply with the
40 requirements of section 43-221.

41 J. The department may disclose the aggregate amounts of any tax
42 credit, tax deduction or tax exemption enacted after January 1, 1994.
43 Information subject to disclosure under this subsection shall not be
44 disclosed if a taxpayer demonstrates to the department that such information
45 would give an unfair advantage to competitors.

1 K. Except as provided in section 42-2002, subsection C, confidential
2 information, described in section 42-2001, paragraph 1, subdivision (a), item
3 (ii), may be disclosed to law enforcement agencies for law enforcement
4 purposes.

5 L. The department may provide transaction privilege tax license
6 information to property tax officials in a county for the purpose of
7 identification and verification of the tax status of commercial property.

8 M. The department may provide transaction privilege tax, luxury tax,
9 use tax, property tax and severance tax information to the ombudsman-citizens
10 aide pursuant to title 41, chapter 8, article 5.

11 N. Except as provided in section 42-2002, subsection D, a court may
12 order the department to disclose confidential information pertaining to a
13 party to an action. An order shall be made only upon a showing of good cause
14 and that the party seeking the information has made demand upon the taxpayer
15 for the information.

16 O. This section does not prohibit the disclosure by the department of
17 any information or documents submitted to the department by a bingo licensee.
18 Before disclosing the information the department shall obtain the name and
19 address of the person requesting the information.

20 P. If the department is required or permitted to disclose confidential
21 information, it may charge the person or agency requesting the information
22 for the reasonable cost of its services.

23 Q. Except as provided in section 42-2002, subsection D, the department
24 of revenue shall release confidential information as requested by the
25 department of economic security pursuant to section 42-1122 or 46-291.
26 Information disclosed under this subsection is limited to the same type of
27 information that the United States internal revenue service is authorized to
28 disclose under section 6103(1)(6) of the internal revenue code.

29 R. Except as provided in section 42-2002, subsection D, the department
30 of revenue shall release confidential information as requested by the courts
31 and clerks of the court pursuant to section 42-1122.

32 S. To comply with the requirements of section 42-5031, the department
33 may disclose to the state treasurer, to the county stadium district board of
34 directors and to any city or town tax official that is part of the county
35 stadium district confidential information attributable to a taxpayer's
36 business activity conducted in the county stadium district.

37 T. The department shall release to the attorney general confidential
38 information as requested by the attorney general for purposes of determining
39 compliance with or enforcing any of the following:

40 1. Any public health control law relating to tobacco sales as provided
41 under title 36, chapter 6, article 14.

42 2. Any law relating to reduced cigarette ignition propensity standards
43 as provided under title 41, chapter 16, article 3.1.

1 3. Sections 44-7101 and 44-7111, the master settlement agreement
2 referred to in those sections and all agreements regarding disputes under the
3 master settlement agreement.

4 U. For proceedings before the department, the office of administrative
5 hearings, the board of tax appeals or any state or federal court involving
6 penalties that were assessed against a return preparer, an electronic return
7 preparer or a payroll service company pursuant to section 42-1103.02,
8 42-1125.01 or 43-419, confidential information may be disclosed only before
9 the judge or administrative law judge adjudicating the proceeding, the
10 parties to the proceeding and the parties' representatives in the proceeding
11 prior to its introduction into evidence in the proceeding. The confidential
12 information may be introduced as evidence in the proceeding only if the
13 taxpayer's name, the names of any dependents listed on the return, all social
14 security numbers, the taxpayer's address, the taxpayer's signature and any
15 attachments containing any of the foregoing information are redacted and if
16 either:

17 1. The treatment of an item reflected on such return is or may be
18 related to the resolution of an issue in the proceeding.

19 2. Such return or return information relates or may relate to a
20 transactional relationship between a person who is a party to the proceeding
21 and the taxpayer which directly affects the resolution of an issue in the
22 proceeding.

23 3. The method of payment of the taxpayer's withholding tax liability
24 or the method of filing the taxpayer's withholding tax return is an issue for
25 the period.

26 V. The department and attorney general may share the information
27 specified in subsection T of this section with any of the following:

28 1. Federal, state or local agencies for the purposes of enforcement of
29 corresponding laws of other states.

30 2. A court, arbitrator, data clearinghouse or similar entity for the
31 purpose of assessing compliance with or making calculations required by the
32 master settlement agreement or agreements regarding disputes under the master
33 settlement agreement, and with counsel for the parties or expert witnesses in
34 any such proceeding, if the information otherwise remains confidential.

35 W. The department may provide the name and address of qualifying
36 hospitals and qualifying health care organizations, as defined in section
37 42-5001, to a business classified and reporting transaction privilege tax
38 under the utilities classification.

39 X. The department may disclose to an official of any city, town or
40 county in a current agreement or considering a prospective agreement with the
41 department as described in section 42-5032.02, subsection F any information
42 relating to amounts subject to distribution required by section 42-5032.02.
43 Information disclosed by the department under this subsection:

44 1. May only be used by the city, town or county for internal purposes.

1 C. As used in this section, "taxpayer" means the business entity under
2 which the business reports for state income tax purposes or an entity that is
3 exempt from state income tax.

4 Sec. 4. Title 42, chapter 5, article 1, Arizona Revised Statutes, is
5 amended by adding section 42-5041, to read:

6 42-5041. Requirements for new transaction privilege and use tax
7 deductions, exemptions and credits established by
8 the legislature

9 ANY NEW TRANSACTION PRIVILEGE OR USE TAX DEDUCTION, EXEMPTION OR CREDIT
10 THAT IS ESTABLISHED BY THE LEGISLATURE UNDER THIS CHAPTER SHALL INCLUDE IN
11 ITS ENABLING LEGISLATION A SPECIFIC REPEAL DATE FOR THE DEDUCTION, EXEMPTION
12 OR CREDIT. THE SPECIFIC REPEAL DATE SHALL BE FROM AND AFTER DECEMBER 31 OF
13 THE TENTH FULL CALENDAR YEAR FOLLOWING THE DATE THE DEDUCTION, EXEMPTION OR
14 CREDIT IS ENACTED.

15 Sec. 5. Section 42-5061, Arizona Revised Statutes, is amended to read:

16 42-5061. Retail classification; definitions

17 A. The retail classification is comprised of the business of selling
18 tangible personal property at retail. The tax base for the retail
19 classification is the gross proceeds of sales or gross income derived from
20 the business. The tax imposed on the retail classification does not apply to
21 the gross proceeds of sales or gross income from:

22 1. Professional or personal service occupations or businesses that
23 involve sales or transfers of tangible personal property only as
24 inconsequential elements.

25 2. Services rendered in addition to selling tangible personal property
26 at retail.

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

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

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

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

39 7. The sale of stocks and bonds.

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

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

- 1 10. Insulin, insulin syringes and glucose test strips.
- 2 11. Prescription eyeglasses or contact lenses.
- 3 12. Hearing aids as defined in section 36-1901.
- 4 13. Durable medical equipment that has a centers for medicare and
5 medicaid services common procedure code, is designated reimbursable by
6 medicare, is prescribed by a person who is licensed under title 32, chapter
7 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and
8 customarily used to serve a medical purpose, is generally not useful to a
9 person in the absence of illness or injury and is appropriate for use in the
10 home.
- 11 14. Sales of motor vehicles to nonresidents of this state for use
12 outside this state if the motor vehicle dealer ships or delivers the motor
13 vehicle to a destination out of this state.
- 14 15. Food, as provided in and subject to the conditions of article 3 of
15 this chapter and section 42-5074.
- 16 16. Items purchased with United States department of agriculture food
17 stamp coupons issued under the food stamp act of 1977 (P.L. 95-113; 91 Stat.
18 958) or food instruments issued under section 17 of the child nutrition act
19 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; 42 United States Code
20 section 1786).
- 21 17. Textbooks by any bookstore that are required by any state
22 university or community college.
- 23 18. Food and drink to a person that is engaged in a business that is
24 classified under the restaurant classification and that provides such food
25 and drink without monetary charge to its employees for their own consumption
26 on the premises during the employees' hours of employment.
- 27 19. Articles of food, drink or condiment and accessory tangible
28 personal property to a school district or charter school if such articles and
29 accessory tangible personal property are to be prepared and served to persons
30 for consumption on the premises of a public school within the district or on
31 the premises of the charter school during school hours.
- 32 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
33 article 1.
- 34 21. The sale of cash equivalents and the sale of precious metal bullion
35 and monetized bullion to the ultimate consumer, but the sale of coins or
36 other forms of money for manufacture into jewelry or works of art is subject
37 to the tax and the gross proceeds of sales or gross income derived from the
38 redemption of any cash equivalent by the holder as a means of payment for
39 goods or services that are taxable under this article is subject to the tax.
40 For the purposes of this paragraph:
41 (a) "Cash equivalents" means items or intangibles, whether or not
42 negotiable, that are sold to one or more persons, through which a value
43 denominated in money is purchased in advance and may be redeemed in full or
44 in part for tangible personal property, intangibles or services. Cash
45 equivalents include gift cards, stored value cards, gift certificates,

1 vouchers, traveler's checks, money orders or other instruments, orders or
2 electronic mechanisms, such as an electronic code, personal identification
3 number or digital payment mechanism, or any other prepaid intangible right to
4 acquire tangible personal property, intangibles or services in the future,
5 whether from the seller of the cash equivalent or from another person. Cash
6 equivalents do not include either of the following:

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

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

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

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

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

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

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

30 25. Tangible personal property sold to:

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

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

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

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

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

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

9 (g) A qualifying health sciences educational institution as defined in
10 section 42-5001.

11 26. Magazines or other periodicals or other publications by this state
12 to encourage tourist travel.

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

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

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

23 28. The sale of a motor vehicle to:

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

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

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

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

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

1 subject to the rules of a commodity market regulated by the United States
2 commodity futures trading commission.

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

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

13 34. Machinery, equipment, technology or related supplies that are only
14 useful to assist a person ~~who has~~ WITH a physical disability as defined in
15 section 46-191, ~~OR A PERSON WHO~~ has a developmental disability as defined in
16 section 36-551 or has a head injury as defined in section 41-3201 to be more
17 independent and functional.

18 35. Sales of natural gas or liquefied petroleum gas used to propel a
19 motor vehicle.

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

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

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

1 operation and includes job printing, engraving, embossing, copying and
2 bookbinding.

3 39. Through December 31, 1994, personal property liquidation
4 transactions, conducted by a personal property liquidator. From and after
5 December 31, 1994, personal property liquidation transactions shall be
6 taxable under this section provided that nothing in this subsection shall be
7 construed to authorize the taxation of casual activities or transactions
8 under this chapter. For the purposes of this paragraph:

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

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

17 40. Sales of food, drink and condiment for consumption within the
18 premises of any prison, jail or other institution under the jurisdiction of
19 the state department of corrections, the department of public safety, the
20 department of juvenile corrections or a county sheriff.

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

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

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

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

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

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

4 47. Sales of materials that are purchased by or for publicly funded
5 libraries including school district libraries, charter school libraries,
6 community college libraries, state university libraries or federal, state,
7 county or municipal libraries for use by the public as follows:

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

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

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

18 49. Sales of alternative fuel vehicles if the vehicle was manufactured
19 as a diesel fuel vehicle and converted to operate on alternative fuel and
20 equipment that is installed in a conventional diesel fuel motor vehicle to
21 convert the vehicle to operate on an alternative fuel, as defined in section
22 1-215.

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

26 51. Sales of tangible personal property to be incorporated or installed
27 as part of environmental response or remediation activities under section
28 42-5075, subsection B, paragraph 6.

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

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

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

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

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

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

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

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

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

27 59. Orthodontic devices dispensed by a dental professional who is
28 licensed under title 32, chapter 11 to a patient as part of the practice of
29 dentistry.

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

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

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

1 includes underground, surface and open pit operations for extracting ores and
2 minerals.

3 3. Tangible personal property sold to persons engaged in business
4 classified under the telecommunications classification and consisting of
5 central office switching equipment, switchboards, private branch exchange
6 equipment, microwave radio equipment and carrier equipment including optical
7 fiber, coaxial cable and other transmission media that are components of
8 carrier systems.

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

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

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

20 7. Aircraft, navigational and communication instruments and other
21 accessories and related equipment sold to:

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

28 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

27 2. Janitorial equipment and hand tools.

28 3. Office equipment, furniture and supplies.

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

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

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

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

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

41 D. In addition to the deductions from the tax base prescribed by
42 subsection A of this section, there shall be deducted from the tax base the
43 gross proceeds of sales or gross income derived from sales of machinery,
44 equipment, materials and other tangible personal property used directly and
45 predominantly to construct a qualified environmental technology

1 manufacturing, producing or processing facility as described in section
2 41-1514.02. This subsection applies for ten full consecutive calendar or
3 fiscal years after the start of initial construction.

4 E. In computing the tax base, gross proceeds of sales or gross income
5 from retail sales of heavy trucks and trailers does not include any amount
6 attributable to federal excise taxes imposed by 26 United States Code section
7 4051.

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

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

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

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

- 32 1. Transporting classification.
- 33 2. Utilities classification.
- 34 3. Telecommunications classification.
- 35 4. Pipeline classification.
- 36 5. Private car line classification.
- 37 6. Publication classification.
- 38 7. Job printing classification.
- 39 8. Prime contracting classification.
- 40 9. Restaurant classification.

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

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

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

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

11 4. Sales of overhead materials or other tangible personal property to
12 a manufacturer, modifier, assembler or repairer if the gross proceeds of
13 sales or gross income derived from the property by the manufacturer,
14 modifier, assembler or repairer will be exempt under paragraph 3 of this
15 subsection.

16 K. There shall be deducted from the tax base fifty ~~per-cent~~ PERCENT of
17 the gross proceeds or gross income from any sale of tangible personal
18 property made directly to the United States government or its departments or
19 agencies that is not deducted under subsection J of this section.

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

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

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

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

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

35 O. In computing the tax base in the case of the sale or transfer of
36 wireless telecommunications equipment as an inducement to a customer to enter
37 into or continue a contract for telecommunications services that are taxable
38 under section 42-5064, gross proceeds of sales or gross income does not
39 include any sales commissions or other compensation received by the retailer
40 as a result of the customer entering into or continuing a contract for the
41 telecommunications services.

42 P. For the purposes of this section, a sale of wireless
43 telecommunications equipment to a person who holds the equipment for sale or
44 transfer to a customer as an inducement to enter into or continue a contract

1 for telecommunications services that are taxable under section 42-5064 is
2 considered to be a sale for resale in the regular course of business.

3 Q. Retail sales of prepaid calling cards or prepaid authorization
4 numbers for telecommunications services, including sales of reauthorization
5 of a prepaid card or authorization number, are subject to tax under this
6 section.

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

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

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

15 S. For the purposes of this section, the transfer of title or
16 possession of coal from an owner or operator of a power plant to a person in
17 the business of refining coal is not a sale of coal if both of the following
18 apply:

19 1. The transfer of title or possession of the coal is for the purpose
20 of refining the coal.

21 2. The title or possession of the coal is transferred back to the
22 owner or operator of the power plant after completion of the coal refining
23 process. For the purposes of this paragraph, "coal refining process"
24 means the application of a coal additive system that aids in the reduction of
25 power plant emissions during the combustion of coal and the treatment of flue
26 gas.

27 T. If a seller is entitled to a deduction pursuant to subsection B,
28 paragraph 15, subdivision (b) of this section, the department may require the
29 purchaser to establish that the requirements of subsection B, paragraph 15,
30 subdivision (b) of this section have been satisfied. If the purchaser cannot
31 establish that the requirements of subsection B, paragraph 15, subdivision
32 (b) of this section have been satisfied, the purchaser is liable in an amount
33 equal to any tax, penalty and interest which the seller would have been
34 required to pay under article 1 of this chapter if the seller had not made a
35 deduction pursuant to subsection B, paragraph 15, subdivision (b) of this
36 section. Payment of the amount under this subsection exempts the purchaser
37 from liability for any tax imposed under article 4 of this chapter and
38 related to the tangible personal property purchased. The amount shall be
39 treated as transaction privilege tax to the purchaser and as tax revenues
40 collected from the seller to designate the distribution base pursuant to
41 section 42-5029.

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

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

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

6 V. In computing the tax base for the sale of a motor vehicle to a
7 nonresident of this state, if the purchaser's state of residence allows a
8 corresponding use tax exemption to the tax imposed by article 1 of this
9 chapter and the rate of the tax in the purchaser's state of residence is
10 lower than the rate prescribed in article 1 of this chapter or if the
11 purchaser's state of residence does not impose an excise tax, and the
12 nonresident has secured a special ninety day nonresident registration permit
13 for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall
14 be deducted from the tax base a portion of the gross proceeds or gross income
15 from the sale so that the amount of transaction privilege tax that is paid in
16 this state is equal to the excise tax that is imposed by the purchaser's
17 state of residence on the nonexempt sale or use of the motor vehicle.

18 W. **NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE TANGIBLE**
19 **PERSONAL PROPERTY IN THE FOLLOWING CATEGORIES IS NOT EXEMPT OR DEDUCTIBLE**
20 **FROM THE TAX BASE FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31,**
21 **2025:**

22 1. **SUBSECTION A, PARAGRAPHS 3, 4, 7, 8, 9, 10, 11, 12, 13, 14, 15, 17,**
23 **18, 19, 20, 21, 25, 26, 28, 29, 30, 31, 32, 33, 34, 35, 36, 37, 38, 39, 40,**
24 **41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58 AND 59**
25 **OF THIS SECTION.**

26 2. **SUBSECTION B, PARAGRAPHS 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13,**
27 **14, 15, 16, 17, 18, 19, 20 AND 21 OF THIS SECTION.**

28 ~~W.~~ X. For the purposes of this section:

29 1. "Aircraft" includes:

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

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

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

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

44 ~~X.~~ Y. For the purposes of subsection J of this section:

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

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

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

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

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

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

30 Sec. 6. Section 42-5062, Arizona Revised Statutes, is amended to read:

31 42-5062. Transporting classification

32 A. The transporting classification is comprised of the business of
33 transporting for hire persons, freight or property by motor vehicle,
34 railroads or aircraft from one point to another point in this state. The
35 transporting classification does not include:

36 1. Transporting for hire persons, freight or property by motor
37 carriers subject to a fee prescribed in title 28, chapter 16, article 4 or by
38 light motor vehicles subject to a fee under title 28, chapter 15, article 4.

39 2. The business of transporting for hire persons traveling in air
40 commerce by aircraft if taxation of the business is preempted by federal law.

41 3. Ambulances or ambulance services provided under title 48 or
42 certified pursuant to title 36, chapter 21.1 or provided by a city or town in
43 a county with a population of less than one hundred fifty thousand persons as
44 determined in the most recent United States decennial census.

1 4. Public transportation program services for the dial-a-ride programs
2 and special needs transportation services.

3 5. Transporting freight or property for hire by a railroad operating
4 exclusively in this state if the transportation comprises a portion of a
5 single shipment of freight or property, involving more than one railroad,
6 either from a point in this state to a point outside this state or from a
7 point outside this state to a point in this state. For the purposes of this
8 paragraph, "a single shipment" means the transportation that begins at the
9 point at which one of the railroads first takes possession of the freight or
10 property and continues until the point at which one of the railroads
11 relinquishes possession of the freight or property to a party other than one
12 of the railroads.

13 6. Arranging transportation as a convenience or service to a person's
14 customers if that person is not otherwise engaged in the business of
15 transporting persons, freight or property for hire. This exception does not
16 apply to businesses that dispatch vehicles pursuant to customer orders and
17 send the billings and receive the payments associated with that activity,
18 including when the transportation is performed by third-party independent
19 contractors. For the purposes of this paragraph, "arranging" includes
20 billing for or collecting transportation charges from a person's customers on
21 behalf of the persons providing the transportation.

22 B. The tax base for the transporting classification is the gross
23 proceeds of sales or gross income derived from the business, except that the
24 following shall be deducted from the tax base:

25 1. The gross proceeds of sales or gross income derived from
26 transporting for hire persons, freight or property by a railroad pursuant to
27 a contract with another railroad that is also considered to be engaged in the
28 businesses of transporting persons, freight or property for hire if the other
29 railroad is liable for the tax on gross proceeds of sales or gross income
30 attributable to the transportation.

31 2. The gross proceeds of sales or gross income derived from business
32 activity that is properly included in any other business classification under
33 this article and that is taxable to the person engaged in that
34 classification, but the gross proceeds of sales or gross income to be
35 deducted shall not exceed the consideration paid to the person conducting the
36 activity.

37 3. The gross proceeds of sales or gross income derived from a business
38 activity that is arranged by the person who is subject to tax under this
39 section and that is not taxable to the person conducting the activity due to
40 an exclusion, exemption or deduction under this section or section 42-5073,
41 but the gross proceeds of sales or gross income to be deducted shall not
42 exceed the consideration paid to the person conducting the activity.

43 4. The gross proceeds of sales or gross income derived from business
44 activity that is arranged by a person who is subject to tax under this
45 section and that is taxable to another person under this section who conducts

1 the activity, but the gross proceeds of sales or gross income to be deducted
2 shall not exceed the consideration paid to the person conducting the
3 activity.

4 5. The gross proceeds of sales or gross income derived from
5 transporting fertilizer by a railroad from a point in this state to another
6 point in this state.

7 C. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE ACTIVITIES
8 IN THE FOLLOWING CATEGORIES ARE NOT EXEMPT OR DEDUCTIBLE FROM THE TAX BASE
9 FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2025:

10 1. SUBSECTION A, PARAGRAPHS 3, 4, 5 AND 6 OF THIS SECTION.

11 2. SUBSECTION B, PARAGRAPHS 1 AND 5 OF THIS SECTION.

12 Sec. 7. Section 42-5063, Arizona Revised Statutes, is amended to read:

13 42-5063. Utilities classification; definitions

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

15 1. Producing and furnishing or furnishing to consumers natural or
16 artificial gas and water.

17 2. Providing to retail electric customers ancillary services, electric
18 distribution services, electric generation services, electric transmission
19 services and other services related to providing electricity.

20 B. The utilities classification does not include:

21 1. Sales of ancillary services, electric distribution services,
22 electric generation services, electric transmission services and other
23 services related to providing electricity, gas or water to a person who
24 resells the services.

25 2. Sales of natural gas or liquefied petroleum gas used to propel a
26 motor vehicle.

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

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

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

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

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

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

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

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

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

18 4. The portion of gross proceeds of sales or gross income that is
19 derived from sales to a qualified environmental technology manufacturer,
20 producer or processor as defined in section 41-1514.02 of a utility product
21 and that is used directly in environmental technology manufacturing,
22 producing or processing. This paragraph shall apply for twenty full
23 consecutive calendar or fiscal years from the date the first paper
24 manufacturing machine is placed in service. In the case of a qualified
25 environmental technology manufacturer, producer or processor who does not
26 manufacture paper, the time period shall begin with the date the first
27 manufacturing, processing or production equipment is placed in service.

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

32 6. Gross proceeds of sales or gross income derived from sales of
33 electricity or natural gas to a business that is principally engaged in
34 manufacturing or smelting operations and that uses at least fifty-one ~~per~~
35 ~~cent~~ PERCENT of the electricity or natural gas in the manufacturing or
36 smelting operations. This paragraph does not apply to gas transportation
37 services. For the purposes of this paragraph:

38 (a) "Gas transportation services" means the services of transporting
39 natural gas to a natural gas customer or to a natural gas distribution
40 facility if the natural gas was purchased from a supplier other than the
41 utility.

42 (b) "Manufacturing" means the performance as a business of an
43 integrated series of operations that places tangible personal property in a
44 form, composition or character different from that in which it was acquired
45 and transforms it into a different product with a distinctive name, character

1 or use. Manufacturing does not include processing, fabricating, job
2 printing, mining, generating electricity or operating a restaurant.

3 (c) "Principally engaged" means at least fifty-one ~~per cent~~ PERCENT of
4 the business is a manufacturing or smelting operation.

5 (d) "Smelting" means to melt or fuse a metalliferous mineral, often
6 with an accompanying chemical change, usually to separate the metal.

7 D. NOTWITHSTANDING SUBSECTIONS B AND C OF THIS SECTION, THE ACTIVITIES
8 IN THE FOLLOWING CATEGORIES ARE NOT EXEMPT OR DEDUCTIBLE FROM THE TAX BASE
9 FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2025:

10 1. SUBSECTION B, PARAGRAPHS 1, 3 AND 4 OF THIS SECTION.

11 2. SUBSECTION C, PARAGRAPHS 1, 2, 3, 4, 5 AND 6 OF THIS SECTION.

12 ~~D.~~ E. For the purposes of this section:

13 1. "Ancillary services" means those services so designated in federal
14 energy regulatory commission order 888 adopted in 1996 that include the
15 services necessary to support the transmission of electricity from resources
16 to loads while maintaining reliable operation of the transmission system
17 according to good utility practice.

18 2. "Electric distribution service" means distributing electricity to
19 retail electric customers through the use of electric distribution
20 facilities.

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

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

28 5. "Other services" includes metering, meter reading services, billing
29 and collecting services.

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

33 Sec. 8. Section 42-5064, Arizona Revised Statutes, is amended to read:

34 42-5064. Telecommunications classification; definitions

35 A. The telecommunications classification is comprised of the business
36 of providing intrastate telecommunications services. The telecommunications
37 classification does not include:

38 1. Sales of intrastate telecommunications services by a cable
39 television system as defined in section 9-505 or by a microwave television
40 transmission system that transmits television programming to multiple
41 subscribers and that is operated pursuant to 47 Code of Federal Regulations
42 parts 21 and 74.

43 2. Sales of internet access or application services to the person's
44 subscribers and customers. For the purposes of this paragraph:

1 (a) "Application services" means software applications provided
2 remotely using hypertext transfer protocol or another network protocol and
3 purchased by or for any school district, charter school, community college or
4 state university to assess or test student learning or to promote curriculum
5 design or enhancement.

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

9 B. The tax base for the telecommunications classification is the gross
10 proceeds of sales or gross income derived from the business, including the
11 gross income derived from tolls, subscriptions and services on behalf of
12 subscribers or from the publication of a directory of the names of
13 subscribers. However, the gross proceeds of sales or gross income derived
14 from the following shall be deducted from the tax base:

15 1. Sales of intrastate telecommunications services to:

16 (a) Other persons engaged in businesses classified under the
17 telecommunications classification for use in such business.

18 (b) A direct broadcast satellite television or data transmission
19 service that operates pursuant to 47 Code of Federal Regulations part 25 for
20 use in its direct broadcast satellite television or data transmission
21 operation by a facility described in section 42-5061, subsection B, paragraph
22 15, subdivision (b).

23 2. End user common line charges established by federal communications
24 commission regulations (47 Code of Federal Regulations section 69.104(a)).

25 3. Carrier access charges established by federal communications
26 commission regulations (47 Code of Federal Regulations sections 69.105(a)
27 through 69.118).

28 4. Sales of direct broadcast satellite television services pursuant to
29 47 Code of Federal Regulations part 25 by a direct broadcast satellite
30 television service that operates pursuant to 47 Code of Federal Regulations
31 part 25.

32 5. Telecommunications services purchased with a prepaid calling card,
33 or a prepaid authorization number for telecommunications services, that is
34 taxable under section 42-5061.

35 C. A person that is engaged in a transient lodging business subject to
36 taxation under section 42-5070 and that provides telephone, fax or internet
37 access services to its customers at an additional charge, which is separately
38 stated on the customer invoice, is considered to be engaged in business
39 subject to taxation under this section for the purposes of taxing the gross
40 proceeds of sales or gross income derived from providing those services.

41 D. The gross proceeds of sales or gross income derived from a bundled
42 transaction of services that are taxable pursuant to section 42-5023 are
43 subject to the following:

44 1. A telecommunications service provider who can reasonably identify
45 the portion of the sales price of the bundled transaction derived from

1 charges for nontaxable services is subject to tax only on the gross proceeds
2 of sales or gross income derived from the taxable services. For the purposes
3 of this section, the telecommunications service provider may elect to
4 reasonably identify the portion of the sales price of the bundled transaction
5 derived from charges for nontaxable services by using allocation percentages
6 derived from the telecommunications service provider's entire service area,
7 including territories outside of this state. On request, the department may
8 require the telecommunications service provider to provide this allocation
9 information. The reasonableness of the allocation is subject to audit by the
10 department.

11 2. Notwithstanding sections 42-1118, 42-1120 and 42-1121, the
12 telecommunications service provider shall waive the right to file a claim for
13 a refund of taxes paid on the bundled transaction if the taxes paid are based
14 on the allocation percentage the telecommunications service provider had
15 determined to be reasonable at the beginning of the tax period at issue.

16 3. The burden of proof is on the telecommunications service provider
17 to establish that the gross proceeds of sales or gross income is derived from
18 charges for nontaxable services.

19 E. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE ACTIVITIES
20 IN THE FOLLOWING CATEGORIES ARE NOT EXEMPT OR DEDUCTIBLE FROM THE TAX BASE
21 FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2025:

22 1. SUBSECTION A, PARAGRAPHS 1 AND 2 OF THIS SECTION.

23 2. SUBSECTION B, PARAGRAPHS 2 AND 4 OF THIS SECTION.

24 ~~E.~~ F. For the purposes of this section:

25 1. "Bundled transaction" means a sale of multiple services in which
26 both of the following apply:

27 (a) The sale consists of both taxable and nontaxable services.

28 (b) The telecommunications service provider charges a customer one
29 sales price for all services that are sold instead of separately charging for
30 each individual service.

31 2. "Internet" means the computer and telecommunications facilities
32 that comprise the interconnected worldwide network of networks that employ
33 the transmission control protocol or internet protocol, or any predecessor or
34 successor protocol, to communicate information of all kinds by wire or radio.

35 3. "Internet access" means a service that enables users to access
36 content, information, electronic mail or other services over the internet.
37 Internet access does not include telecommunications services provided by a
38 common carrier.

39 4. "Intrastate telecommunications services" means transmitting signs,
40 signals, writings, images, sounds, messages, data or other information of any
41 nature by wire, radio waves, light waves or other electromagnetic means if
42 the information transmitted originates and terminates in this state.

1 Sec. 9. Section 42-5065, Arizona Revised Statutes, is amended to read:

2 42-5065. Publication classification: definition

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

- 6 1. Manufacturing or publishing books.
7 2. Sales of magazines or other periodicals or other publications by
8 this state to encourage tourist travel.

9 B. The tax base for the publication classification is the gross
10 proceeds of sales or gross income derived from the business, including the
11 gross income derived from notices and subscription income, but the following
12 shall be deducted from the tax base:

- 13 1. Gross income derived from advertising.
14 2. Gross proceeds of sales or gross income derived from sales of
15 personal property to:

- 16 (a) Qualifying hospitals as defined in section 42-5001.
17 (b) A qualifying health care organization as defined in section
18 42-5001 if the tangible personal property is used by the organization solely
19 to provide health and medical related educational and charitable services.
20 (c) A qualifying health sciences educational institution as defined in
21 section 42-5001.

22 C. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE ACTIVITIES
23 IN THE FOLLOWING CATEGORIES ARE NOT EXEMPT OR DEDUCTIBLE FROM THE TAX BASE
24 FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2025:

- 25 1. SUBSECTION A, PARAGRAPH 1 OF THIS SECTION.
26 2. SUBSECTION B, PARAGRAPH 1 OF THIS SECTION.

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

32 Sec. 10. Section 42-5066, Arizona Revised Statutes, is amended to
33 read:

34 42-5066. Job printing classification

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

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

- 41 1. Sales to a person in this state who has a transaction privilege tax
42 license issued in this state, and who does either of the following:
43 (a) Resells the job printing, engraving, embossing or copying.
44 (b) Distributes such printing, engraving, embossing or copying without
45 consideration in connection with the publication of a newspaper or magazine.

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

5 3. Sales of personal property to:

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

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

10 (c) A qualifying health sciences educational institution as defined in
11 section 42-5001.

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

17 C. NOTWITHSTANDING SUBSECTION B OF THIS SECTION, THE ACTIVITIES
18 DESCRIBED IN SUBSECTION B, PARAGRAPHS 1, 2 AND 4 OF THIS SECTION ARE NOT
19 DEDUCTIBLE FROM THE TAX BASE FOR TAXABLE PERIODS BEGINNING FROM AND AFTER
20 DECEMBER 31, 2025.

21 Sec. 11. Section 42-5070, Arizona Revised Statutes, is amended to
22 read:

23 42-5070. Transient lodging classification; definition

24 A. The transient lodging classification is comprised of the business
25 of operating, for occupancy by transients, a hotel or motel, including an
26 inn, tourist home or house, dude ranch, resort, campground, studio or
27 bachelor hotel, lodging house, rooming house, apartment house, dormitory,
28 public or private club, mobile home or house trailer at a fixed location or
29 other similar structure, and also including a space, lot or slab that is
30 occupied or intended or designed for occupancy by transients in a mobile home
31 or house trailer furnished by them for such occupancy.

32 B. The transient lodging classification does not include:

33 1. Operating a convalescent home or facility, home for the aged,
34 hospital, jail, military installation or fraternity or sorority house or
35 operating any structure exclusively by an association, institution,
36 governmental agency or corporation for religious, charitable or educational
37 purposes, if no part of the net earnings of the association, corporation or
38 other entity inures to the benefit of any private shareholder or individual.

39 2. A lease or rental of a mobile home or house trailer at a fixed
40 location or any other similar structure, and also including a space, lot or
41 slab that is occupied or intended or designed for occupancy by transients in
42 a mobile home or house trailer furnished by them for such occupancy for
43 thirty or more consecutive days.

44 3. Leasing or renting four or fewer rooms of an owner-occupied
45 residential home, together with furnishing no more than a breakfast meal, to

1 transient lodgers at no more than a fifty ~~per-cent~~ PERCENT average annual
2 occupancy rate. THIS EXEMPTION EXPIRES FROM AND AFTER DECEMBER 31, 2025.

3 C. The tax base for the transient lodging classification is the gross
4 proceeds of sales or gross income derived from the business, except that the
5 tax base does not include gross proceeds of sales or gross income derived
6 from business activity that is properly included in another business
7 classification under this article and that is taxable to the person engaged
8 in that business classification, but the gross proceeds of sales or gross
9 income to be deducted shall not exceed the consideration paid to the person
10 conducting the activity.

11 D. For the purposes of this section, the tax base for the transient
12 lodging classification does not include gross proceeds of sales or gross
13 income derived from:

14 1. Transactions or activities that are not limited to transients and
15 that would not be taxable if engaged in by a person not subject to tax under
16 this article.

17 2. Transactions or activities that are not limited to transients and
18 that would not be taxable if engaged in by a person subject to taxation under
19 section 42-5062 or 42-5073 due to an exclusion, exemption or deduction.

20 3. Commissions paid to a person that is engaged in transient lodging
21 business subject to taxation under this section by a person providing
22 services or property to the customers of the person engaging in the transient
23 lodging business.

24 E. The department shall separately account for revenues collected
25 under the transient lodging classification for the purposes of section
26 42-5029, subsection D, paragraph 4, subdivision (b).

27 F. For the purposes of this section, "transient" means any person who
28 either at the person's own expense or at the expense of another obtains
29 lodging space or the use of lodging space on a daily or weekly basis, or on
30 any other basis for less than thirty consecutive days.

31 Sec. 12. Section 42-5071, Arizona Revised Statutes, is amended to
32 read:

33 42-5071. Personal property rental classification

34 A. The personal property rental classification is comprised of the
35 business of leasing or renting tangible personal property for a
36 consideration. The tax does not apply to:

37 1. Leasing or renting films, tapes or slides used by theaters or
38 movies, which are engaged in business under the amusement classification, or
39 used by television stations or radio stations.

40 2. Activities engaged in by the Arizona exposition and state fair
41 board or county fair commissions in connection with events sponsored by such
42 entities.

43 3. Leasing or renting tangible personal property by a parent
44 corporation to a subsidiary corporation or by a subsidiary corporation to
45 another subsidiary of the same parent corporation if taxes were paid under

1 this chapter on the gross proceeds or gross income accruing from the initial
2 sale of the tangible personal property. For the purposes of this paragraph,
3 "subsidiary" means a corporation of which at least eighty ~~per cent~~ PERCENT of
4 the voting shares are owned by the parent corporation.

5 4. Operating coin-operated washing, drying and dry cleaning machines
6 or coin-operated car washing machines at establishments for the use of such
7 machines.

8 5. Leasing or renting tangible personal property for incorporation
9 into or comprising any part of a qualified environmental technology facility
10 as described in section 41-1514.02. This paragraph shall apply for ten full
11 consecutive calendar or fiscal years following the initial lease or rental by
12 each qualified environmental technology manufacturer, producer or processor.

13 6. Leasing or renting aircraft, flight simulators or similar training
14 equipment to students or staff by nonprofit, accredited educational
15 institutions that offer associate or baccalaureate degrees in aviation or
16 aerospace related fields.

17 7. Leasing or renting photographs, transparencies or other creative
18 works used by this state on internet websites, in magazines or in other
19 publications that encourage tourism.

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

24 B. The tax base for the personal property rental classification is the
25 gross proceeds of sales or gross income derived from the business, but the
26 gross proceeds of sales or gross income derived from the following shall be
27 deducted from the tax base:

28 1. Reimbursements by the lessee to the lessor of a motor vehicle for
29 payments by the lessor of the applicable fees and taxes imposed by sections
30 28-2003, 28-2352, 28-2402, 28-2481 and 28-5801, title 28, chapter 15,
31 article 2 and article IX, section 11, Constitution of Arizona, to the extent
32 such amounts are separately identified as such fees and taxes and are billed
33 to the lessee.

34 2. Leases or rentals of tangible personal property that, if it had
35 been purchased instead of leased or rented by the lessee, would have been
36 exempt under:

37 (a) Section 42-5061, subsection A, paragraph 8, 9, 12, 13, 25, 29, 49
38 or 54.

39 (b) Section 42-5061, subsection B, except that a lease or rental of
40 new machinery or equipment is not exempt pursuant to:

41 (i) Section 42-5061, subsection B, paragraph 13 if the lease is for
42 less than two years.

43 (ii) Section 42-5061, subsection B, paragraph 21.

44 (c) Section 42-5061, subsection J, paragraph 1.

45 (d) Section 42-5061, subsection N.

1 3. Motor vehicle fuel and use fuel that are subject to a tax imposed
2 under title 28, chapter 16, article 1, sales of use fuel to a holder of a
3 valid single trip use fuel tax permit issued under section 28-5739 and sales
4 of aviation fuel that are subject to the tax imposed under section 28-8344.

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

7 5. Amounts received by a motor vehicle dealer for the first month of a
8 lease payment if the lease and the lease payment for the first month of the
9 lease are transferred to a third-party leasing company.

10 C. Sales of tangible personal property to be leased or rented to a
11 person engaged in a business classified under the personal property rental
12 classification are deemed to be resale sales.

13 D. In computing the tax base, the gross proceeds of sales or gross
14 income from the lease or rental of a motor vehicle does not include any
15 amount attributable to the car rental surcharge under section 5-839, 28-5810
16 or 48-4234.

17 E. Until December 31, 1988, leasing or renting animals for
18 recreational purposes is exempt from the tax imposed by this section.
19 Beginning January 1, 1989, the gross proceeds or gross income from leasing or
20 renting animals for recreational purposes is subject to taxation under this
21 section. Tax liabilities, penalties and interest paid for taxable periods
22 before January 1, 1989 shall not be refunded unless the taxpayer requesting
23 the refund provides proof satisfactory to the department that the monies paid
24 as taxes will be returned to the customer.

25 F. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE ACTIVITIES
26 IN THE FOLLOWING CATEGORIES ARE NOT EXEMPT OR DEDUCTIBLE FROM THE TAX BASE
27 FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2025:

28 1. SUBSECTION A, PARAGRAPHS 1, 4, 5, 6 AND 7 OF THIS SECTION.

29 2. SUBSECTION B, PARAGRAPH 5 OF THIS SECTION.

30 Sec. 13. Section 42-5072, Arizona Revised Statutes, is amended to
31 read:

32 42-5072. Mining classification; definition

33 A. The mining classification is comprised of the business of mining,
34 quarrying or producing for sale, profit or commercial use any
35 nonmetalliferous mineral product that has been mined, quarried or otherwise
36 extracted within the boundaries of this state described in article I, section
37 1, Constitution of Arizona.

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

43 C. The tax base includes the value of the entire product mined,
44 quarried or produced for sale, profit or commercial use in this state,
45 regardless of the place of sale of the product or of the fact that deliveries

1 may be made to points without this state. THROUGH DECEMBER 31, 2025,
2 if, ~~however,~~ the sale price of the product includes freight, the sale price
3 shall be reduced by the actual freight paid by any person from the place of
4 production to the place of delivery.

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

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

22 F. A person who conducts a business classified under the mining
23 classification may be deemed also to be engaged in business classified under
24 the retail classification to the extent the person's activities comprise
25 business under the retail classification if the tax is paid at the rate
26 imposed on the retail classification by section 42-5010. If the transaction
27 is not subject to taxation under the retail classification, the transaction
28 shall be included in the tax base under this section, except for the transfer
29 of title or possession of coal back and forth between an owner or operator of
30 a power plant and a person who is responsible for refining coal if both of
31 the following apply:

32 1. The transfer of title or possession of the coal is for the purpose
33 of refining the coal.

34 2. The title or possession of the coal is transferred back to the
35 owner or operator of the power plant after completion of the coal refining
36 process. For the purposes of this paragraph, "coal refining process" means
37 the application of a coal additive system that aids the reduction of power
38 plant emissions during the combustion of coal and the treatment of flue gas.

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

1 Sec. 14. Section 42-5073, Arizona Revised Statutes, is amended to
2 read:

3 42-5073. Amusement classification

4 A. The amusement classification is comprised of the business of
5 operating or conducting theaters, movies, operas, shows of any type or
6 nature, exhibitions, concerts, carnivals, circuses, amusement parks,
7 menageries, fairs, races, contests, games, billiard or pool parlors, bowling
8 alleys, public dances, dance halls, boxing and wrestling matches, skating
9 rinks, tennis courts, except as provided in subsection B of this section,
10 video games, pinball machines, sports events or any other business charging
11 admission or user fees for exhibition, amusement or entertainment, including
12 the operation or sponsorship of events by a tourism and sports authority
13 under title 5, chapter 8. For the purposes of this section, admission or
14 user fees include, but are not limited to, any revenues derived from any form
15 of contractual agreement for rights to or use of premium or special seating
16 facilities or arrangements. The amusement classification does not include:

17 1. Activities or projects of bona fide religious or educational
18 institutions.

19 2. Private or group instructional activities. For the purposes of
20 this paragraph, "private or group instructional activities" includes, but is
21 not limited to, performing arts, martial arts, gymnastics and aerobic
22 instruction.

23 3. The operation or sponsorship of events by the Arizona exposition
24 and state fair board or county fair commissions.

25 4. A musical, dramatic or dance group or a botanical garden, museum or
26 zoo that is qualified as a nonprofit charitable organization under section
27 501(c)(3) of the United States internal revenue code and if no part of its
28 net income inures to the benefit of any private shareholder or individual.

29 5. Exhibition events in this state sponsored, conducted or operated by
30 a nonprofit organization that is exempt from taxation under section
31 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the
32 organization is associated with major league baseball teams or a national
33 touring professional golfing association and no part of the organization's
34 net earnings inures to the benefit of any private shareholder or individual.

35 6. Operating or sponsoring rodeos that feature primarily farm and
36 ranch animals in this state and that are sponsored, conducted or operated by
37 a nonprofit organization that is exempt from taxation under section
38 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the internal
39 revenue code and no part of the organization's net earnings inures to the
40 benefit of any private shareholder or individual.

41 7. Sales of admissions to intercollegiate football contests if the
42 contests are both:

43 (a) Operated by a nonprofit organization that is exempt from taxation
44 under section 501(c)(3) of the internal revenue code and no part of the

1 organization's net earnings inures to the benefit of any private shareholder
2 or individual.

3 (b) Not held in a multipurpose facility that is owned or operated by
4 the tourism and sports authority pursuant to title 5, chapter 8.

5 8. Activities and events of, or fees and assessments received by, a
6 homeowners organization from persons who are members of the organization or
7 accompanied guests of members. For the purposes of this paragraph,
8 "homeowners organization" means a mandatory membership organization comprised
9 of owners of residential property within a specified residential real estate
10 subdivision development or similar area and established to own property for
11 the benefit of its members where both of the following apply:

12 (a) No part of the organization's net earnings inures to the benefit
13 of any private shareholder or individual.

14 (b) The primary purpose of the organization is to provide for the
15 acquisition, construction, management, maintenance or care of organization
16 property.

17 9. Activities and events of, or fees received by, a nonprofit
18 organization that is exempt from taxation under section 501(c)(6) of the
19 internal revenue code if the organization produces, organizes or promotes
20 cultural or civic related festivals or events and no part of the
21 organization's net earnings inures to the benefit of any private shareholder
22 or individual.

23 10. Arranging an amusement activity as a service to a person's
24 customers if that person is not otherwise engaged in the business of
25 operating or conducting an amusement personally or through others. This
26 exception does not apply to businesses that operate or conduct amusements
27 pursuant to customer orders and send the billings and receive the payments
28 associated with that activity, including when the amusement is performed by
29 third-party independent contractors. For the purposes of this paragraph,
30 "arranging" includes billing for or collecting amusement charges from a
31 person's customers on behalf of the persons providing the amusement.

32 B. The tax base for the amusement classification is the gross proceeds
33 of sales or gross income derived from the business, except that the following
34 shall be deducted from the tax base:

35 1. The gross proceeds of sales or gross income derived from
36 memberships, including initiation fees, which provide for the right to use a
37 health or fitness establishment or a private recreational establishment, or
38 any portion of an establishment, including tennis and other racquet courts at
39 that establishment, for participatory purposes for twenty-eight days or more
40 and fees charged for use of the health or fitness establishment or private
41 recreational establishment by bona fide accompanied guests of members, except
42 that this paragraph does not include additional fees, other than initiation
43 fees, charged by a health or fitness establishment or a private recreational
44 establishment for purposes other than memberships which provide for the right
45 to use a health or fitness establishment or private recreational

1 establishment, or any portion of an establishment, for participatory purposes
2 for twenty-eight days or more and accompanied guest use fees.

3 2. Amounts that are exempt under section 5-111, subsection H.

4 3. The gross proceeds of sales or gross income derived from membership
5 fees, including initiation fees, that provide for the right to use a
6 transient lodging recreational establishment, including golf courses and
7 tennis and other racquet courts at that establishment, for participatory
8 purposes for twenty-eight days or more, except that this paragraph does not
9 include additional fees, other than initiation fees, that are charged by a
10 transient lodging recreational establishment for purposes other than
11 memberships and that provide for the right to use a transient lodging
12 recreational establishment or any portion of the establishment for
13 participatory purposes for twenty-eight days or more.

14 4. The gross proceeds of sales or gross income derived from sales to
15 persons engaged in the business of transient lodging classified under section
16 42-5070, if all of the following apply:

17 (a) The persons who are engaged in the transient lodging business sell
18 the amusement to another person for consideration.

19 (b) The consideration received by the transient lodging business is
20 equal to or greater than the amount to be deducted under this subsection.

21 (c) The transient lodging business has provided an exemption
22 certificate to the person engaging in business under this section.

23 5. The gross proceeds of sales or gross income derived from:

24 (a) Business activity that is properly included in any other business
25 classification under this article and that is taxable to the person engaged
26 in that classification, but the gross proceeds of sales or gross income to be
27 deducted shall not exceed the consideration paid to the person conducting the
28 activity.

29 (b) Business activity that is arranged by the person who is subject to
30 tax under this section and that is not taxable to the person conducting the
31 activity due to an exclusion, exemption or deduction under this section or
32 section 42-5062, but the gross proceeds of sales or gross income to be
33 deducted shall not exceed the consideration paid to the person conducting the
34 activity.

35 (c) Business activity that is arranged by a person who is subject to
36 tax under this section and that is taxable to another person under this
37 section who conducts the activity, but the gross proceeds of sales or gross
38 income to be deducted shall not exceed the consideration paid to the person
39 conducting the activity.

40 C. For the purposes of subsection B of this section:

41 1. "Health or fitness establishment" means a facility whose primary
42 purpose is to provide facilities, equipment, instruction or education to
43 promote the health and fitness of its members and at least eighty ~~per cent~~
44 PERCENT of the monthly gross revenue of the facility is received through
45 accounts of memberships and accompanied guest use fees which provide for the

1 right to use the facility, or any portion of the facility, under the terms of
2 the membership agreement for participatory purposes for twenty-eight days or
3 more.

4 2. "Private recreational establishment" means a facility whose primary
5 purpose is to provide recreational facilities, such as tennis, golf and
6 swimming, for its members and where at least eighty ~~per-cent~~ PERCENT of the
7 monthly gross revenue of the facility is received through accounts of
8 memberships and accompanied guest use fees which provide for the right to use
9 the facility, or any portion of the facility, for participatory purposes for
10 twenty-eight days or more.

11 3. "Transient lodging recreational establishment" means a facility
12 whose primary purpose is to provide facilities for transient lodging, that is
13 subject to taxation under this chapter and that also provides recreational
14 facilities, such as tennis, golf and swimming, for members for a period of
15 twenty-eight days or more.

16 D. Until December 31, 1988, the revenues from hayrides and other
17 animal-drawn amusement rides, from horseback riding and riding instruction
18 and from recreational tours using motor vehicles designed to operate on and
19 off public highways are exempt from the tax imposed by this section.
20 Beginning January 1, 1989, the gross proceeds or gross income from hayrides
21 and other animal-drawn amusement rides, from horseback riding and from
22 recreational tours using motor vehicles designed to operate on and off public
23 highways are subject to taxation under this section. Tax liabilities,
24 penalties and interest paid for taxable periods before January 1, 1989 shall
25 not be refunded unless the taxpayer requesting the refund provides proof
26 satisfactory to the department that the taxes will be returned to the
27 customer.

28 E. If a person is engaged in the business of offering both exhibition,
29 amusement or entertainment and private or group instructional activities, the
30 person's books shall be kept to show separately the gross income from
31 exhibition, amusement or entertainment and the gross income from
32 instructional activities. If the books do not provide this separate
33 accounting, the tax is imposed on the person's total gross income from the
34 business.

35 F. The department shall separately account for revenues collected
36 under the amusement classification for the purposes of section 42-5029,
37 subsection D, paragraph 4, subdivision (b).

38 G. For THE purposes of section 42-5032.01, the department shall
39 separately account for revenues collected under the amusement classification
40 from sales of admissions to:

41 1. Events that are held in a multipurpose facility that is owned or
42 operated by the tourism and sports authority pursuant to title 5, chapter 8,
43 including intercollegiate football contests that are operated by a nonprofit
44 organization that is exempt from taxation under section 501(c)(3) of the
45 internal revenue code.

1 2. Professional football contests that are held in a stadium located
2 on the campus of an institution under the jurisdiction of the Arizona board
3 of regents.

4 H. NOTWITHSTANDING SUBSECTION A OF THIS SECTION, THE ACTIVITIES
5 DESCRIBED IN SUBSECTION A PARAGRAPHS 1, 2, 3, 4, 7, 8 AND 10 ARE NOT EXEMPT
6 FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2025.

7 Sec. 15. Section 42-5074, Arizona Revised Statutes, is amended to
8 read:

9 42-5074. Restaurant classification

10 A. The restaurant classification is comprised of the business of
11 operating restaurants, dining cars, dining rooms, lunchrooms, lunch stands,
12 soda fountains, catering services or similar establishments where articles of
13 food or drink are sold for consumption on or off the premises.

14 B. The tax base for the restaurant classification is the gross
15 proceeds of sales or gross income derived from the business. The gross
16 proceeds of sales or gross income derived from the following shall be
17 deducted from the tax base:

18 1. Sales to a person engaged in business classified under the
19 restaurant classification if the items sold are to be resold in the regular
20 course of the business.

21 2. Sales by a congressionally chartered veterans organization of food
22 or drink prepared for consumption on the premises leased, owned or maintained
23 by the organization.

24 3. Sales by churches, fraternal benefit societies and other nonprofit
25 organizations, as these organizations are defined in the federal internal
26 revenue code (26 United States Code section 501), that do not regularly
27 engage or continue in the restaurant business for the purpose of
28 fund-raising.

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

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

40 6. Sales by any nonprofit organization organized and operated
41 exclusively for charitable purposes and recognized by the United States
42 internal revenue service under section 501(c)(3) of the internal revenue
43 code.

44 7. Sales to qualifying hospitals as defined in section 42-5001.

1 8. Sales to a qualifying health care organization as defined in
2 section 42-5001 if the tangible personal property is used by the organization
3 solely to provide health and medical related educational and charitable
4 services.

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

9 10. Sales of articles of prepared or unprepared food, drink or
10 condiment and accessory tangible personal property to a school district or
11 charter school if the articles and accessory tangible personal property are
12 served to persons for consumption on the premises of a public school in the
13 school district or charter school during school hours.

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

18 12. Sales of articles of food and drink at low or reduced prices to
19 eligible elderly, ~~disabled~~ or homeless persons **OR PERSONS WITH A DISABILITY**
20 by a restaurant that contracts with the department of economic security and
21 that is approved by the food and nutrition services of the United States
22 department of agriculture pursuant to the supplemental nutrition assistance
23 program established by the food and nutrition act of 2008 (P.L. 110-246; 122
24 Stat. 1651; 7 United States Code sections 2011 through 2036a), if the
25 purchases of the articles of food and drink are made with the benefits issued
26 pursuant to the supplemental nutrition assistance program.

27 C. The tax imposed on the restaurant classification pursuant to this
28 section does not apply to the gross proceeds of sales or gross income from
29 tangible personal property sold to a commercial airline consisting of food,
30 beverages and condiments and accessories used for serving the food and
31 beverages, if those items are to be provided without additional charge to
32 passengers for consumption in flight. For the purposes of this subsection,
33 "commercial airline" means a person holding a federal certificate of public
34 convenience and necessity or foreign air carrier permit for air
35 transportation to transport persons, property or United States mail in
36 intrastate, interstate or foreign commerce.

37 D. The department shall separately account for revenues collected
38 under the restaurant classification for the purposes of section 42-5029,
39 subsection D, paragraph 4, subdivision (b).

40 E. For purposes of section 42-5032.01, the department shall separately
41 account for revenues collected under the restaurant classification from
42 businesses operating restaurants, dining rooms, lunchrooms, lunch stands,
43 soda fountains, catering services or similar establishments:

1 1. On the premises of a multipurpose facility that is owned or
2 operated by the tourism and sports authority pursuant to title 5, chapter 8
3 for consumption on or off the premises.

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

7 F. NOTWITHSTANDING SUBSECTION B OF THIS SECTION, THE ACTIVITIES
8 DESCRIBED IN SUBSECTION B, PARAGRAPHS 2, 3 AND 7 ARE NOT DEDUCTIBLE IN
9 COMPUTING THE TAX BASE FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER
10 31, 2025.

11 Sec. 16. Section 42-5075, Arizona Revised Statutes, is amended to
12 read:

13 42-5075. Prime contracting classification; exemptions;
14 definitions

15 A. The prime contracting classification is comprised of the business
16 of prime contracting and dealership of manufactured buildings. Sales for
17 resale to another ~~dealership of~~ manufactured ~~buildings~~ BUILDING DEALER are
18 not subject to tax. Sales for resale do not include sales to a lessor of
19 manufactured buildings. The sale of a used manufactured building is not
20 taxable under this chapter. The proceeds from alteration and repairs to a
21 used manufactured building are taxable under this section.

22 B. THROUGH DECEMBER 31, 2025, the tax base for the prime contracting
23 classification is sixty-five ~~per cent~~ PERCENT of the gross proceeds of sales
24 or gross income derived from the business. FOR TAXABLE PERIODS BEGINNING
25 FROM AND AFTER DECEMBER 31, 2025, THE TAX BASE FOR THE PRIME CONTRACTING
26 CLASSIFICATION IS THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM
27 THE BUSINESS. The following amounts shall be deducted from the gross
28 proceeds of sales or gross income before computing the tax base:

29 1. The sales price of land, which shall not exceed the fair market
30 value.

31 2. Sales and installation of groundwater measuring devices required
32 under section 45-604 and groundwater monitoring wells required by law,
33 including monitoring wells installed for acquiring information for a permit
34 required by law.

35 3. The sales price of furniture, furnishings, fixtures, appliances and
36 attachments that are not incorporated as component parts of or attached to a
37 manufactured building or the setup site. The sale of such items may be
38 subject to the taxes imposed by article 1 of this chapter separately and
39 distinctly from the sale of the manufactured building.

40 4. The gross proceeds of sales or gross income received from a
41 contract entered into for the construction, addition, subtraction,
42 improvement, movement, wrecking or demolition of any building, highway, road,
43 railroad, excavation, manufactured building or other structure, project,
44 development or improvement located in a military reuse zone for providing
45 aviation or aerospace services or for a manufacturer, assembler or fabricator

1 of aviation or aerospace products within an active military reuse zone after
2 the zone is initially established or renewed under section 41-1531. To be
3 eligible to qualify for this deduction, before beginning work under the
4 contract, the prime contractor must have applied for a letter of
5 qualification from the department of revenue.

6 5. The gross proceeds of sales or gross income derived from a contract
7 to construct a qualified environmental technology manufacturing, producing or
8 processing facility, as described in section 41-1514.02, and from subsequent
9 construction and installation contracts that begin within ten years after the
10 start of initial construction. To qualify for this deduction, before
11 beginning work under the contract, the prime contractor must obtain a letter
12 of qualification from the department of revenue. This paragraph shall apply
13 for ten full consecutive calendar or fiscal years after the start of initial
14 construction.

15 6. The gross proceeds of sales or gross income from a contract to
16 provide for one or more of the following actions, or a contract for site
17 preparation, constructing, furnishing or installing machinery, equipment or
18 other tangible personal property, including structures necessary to protect
19 exempt incorporated materials or installed machinery or equipment, and
20 tangible personal property incorporated into the project, to perform one or
21 more of the following actions in response to a release or suspected release
22 of a hazardous substance, pollutant or contaminant from a facility to the
23 environment, unless the release was authorized by a permit issued by a
24 governmental authority:

25 (a) Actions to monitor, assess and evaluate such a release or a
26 suspected release.

27 (b) Excavation, removal and transportation of contaminated soil and
28 its treatment or disposal.

29 (c) Treatment of contaminated soil by vapor extraction, chemical or
30 physical stabilization, soil washing or biological treatment to reduce the
31 concentration, toxicity or mobility of a contaminant.

32 (d) Pumping and treatment or in situ treatment of contaminated
33 groundwater or surface water to reduce the concentration or toxicity of a
34 contaminant.

35 (e) The installation of structures, such as cutoff walls or caps, to
36 contain contaminants present in groundwater or soil and prevent them from
37 reaching a location where they could threaten human health or welfare or the
38 environment.

39 This paragraph does not include asbestos removal or the construction or use
40 of ancillary structures such as maintenance sheds, offices or storage
41 facilities for unattached equipment, pollution control equipment, facilities
42 or other control items required or to be used by a person to prevent or
43 control contamination before it reaches the environment.

44 7. The gross proceeds of sales or gross income that is derived from a
45 contract for the installation, assembly, repair or maintenance of machinery,

1 equipment or other tangible personal property that is either deducted from
2 the tax base of the retail classification under section 42-5061, subsection B
3 or that is exempt from use tax under section 42-5159, subsection B and that
4 has independent functional utility, pursuant to the following provisions:

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

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

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

13 (iii) Any activity that is related to the activities described in
14 items (i) and (ii) of this subdivision, including inspecting the installation
15 of or testing the machinery, equipment or other tangible personal property.

16 (b) The deduction provided in this paragraph does not include gross
17 proceeds of sales or gross income from the portion of any contracting
18 activity that consists of the development of, or modification to, real
19 property in order to facilitate the installation, assembly, repair,
20 maintenance or removal of machinery, equipment or other tangible personal
21 property that is either deducted from the tax base of the retail
22 classification under section 42-5061, subsection B or exempt from use tax
23 under section 42-5159, subsection B.

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

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

31 (i) Assembling the machinery, equipment or other tangible personal
32 property.

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

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

38 (iv) Stabilizing or protecting the machinery, equipment or other
39 tangible personal property during operation by bolting, burying or performing
40 other similar nonpermanent connections to either real property or real
41 property improvements.

42 8. The gross proceeds of sales or gross income attributable to the
43 purchase of machinery, equipment or other tangible personal property that is
44 exempt from or deductible from transaction privilege and use tax under:

1 (a) Section 42-5061, subsection A, paragraph 25, 29 or 58.

2 (b) Section 42-5061, subsection B.

3 (c) Section 42-5159, subsection A, paragraph 13, subdivision (a), (b),
4 (c), (d), (e), (f), (i), (j) or (l) or paragraph 54.

5 (d) Section 42-5159, subsection B.

6 9. The gross proceeds of sales or gross income received from a
7 contract for the construction of an environmentally controlled facility for
8 the raising of poultry for the production of eggs and the sorting, cooling
9 and packaging of eggs.

10 10. The gross proceeds of sales or gross income that is derived from a
11 contract entered into with a person who is engaged in the commercial
12 production of livestock, livestock products or agricultural, horticultural,
13 viticultural or floricultural crops or products in this state for the
14 construction, alteration, repair, improvement, movement, wrecking or
15 demolition or addition to or subtraction from any building, highway, road,
16 excavation, manufactured building or other structure, project, development or
17 improvement used directly and primarily to prevent, monitor, control or
18 reduce air, water or land pollution.

19 11. The gross proceeds of sales or gross income that is derived from
20 the installation, assembly, repair or maintenance of clean rooms that are
21 deducted from the tax base of the retail classification pursuant to section
22 42-5061, subsection B, paragraph 16.

23 12. For taxable periods beginning from and after June 30, 2001, the
24 gross proceeds of sales or gross income derived from a contract entered into
25 for the construction of a residential apartment housing facility that
26 qualifies for a federal housing subsidy for low income persons over sixty-two
27 years of age and that is owned by a nonprofit charitable organization that
28 has qualified under section 501(c)(3) of the internal revenue code.

29 13. For taxable periods beginning from and after December 31, 1996 and
30 ending before January 1, 2017, the gross proceeds of sales or gross income
31 derived from a contract to provide and install a solar energy device. The
32 contractor shall register with the department as a solar energy contractor.
33 By registering, the contractor acknowledges that it will make its books and
34 records relating to sales of solar energy devices available to the department
35 for examination.

36 14. The gross proceeds of sales or gross income derived from a contract
37 entered into for the construction of a launch site, as defined in 14 Code of
38 Federal Regulations section 401.5.

39 15. The gross proceeds of sales or gross income derived from a contract
40 entered into for the construction of a domestic violence shelter that is
41 owned and operated by a nonprofit charitable organization that has qualified
42 under section 501(c)(3) of the internal revenue code.

43 16. The gross proceeds of sales or gross income derived from contracts
44 to perform postconstruction treatment of real property for termite and
45 general pest control, including wood destroying organisms.

1 17. The gross proceeds of sales or gross income received from contracts
2 entered into before July 1, 2006 for constructing a state university research
3 infrastructure project if the project has been reviewed by the joint
4 committee on capital review before the university enters into the
5 construction contract for the project. For the purposes of this paragraph,
6 "research infrastructure" has the same meaning prescribed in section 15-1670.

7 18. The gross proceeds of sales or gross income received from a
8 contract for the construction of any building, or other structure, project,
9 development or improvement owned by a qualified business under section
10 41-1516 for harvesting or processing qualifying forest products removed from
11 qualifying projects as defined in section 41-1516 if actual construction
12 begins before January 1, 2024. To qualify for this deduction, the prime
13 contractor must obtain a letter of qualification from the Arizona commerce
14 authority before beginning work under the contract.

15 19. Any amount of the gross proceeds of sales or gross income
16 attributable to development fees that are incurred in relation to a contract
17 for construction, development or improvement of real property and that are
18 paid by a prime contractor or subcontractor. For the purposes of this
19 paragraph:

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

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

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

32 20. The gross proceeds of sales or gross income derived from a contract
33 with the owner of real property for the maintenance, repair or replacement of
34 existing property if the contract does not include modification activities.
35 For the purposes of this paragraph, each contract or project is independent
36 of another contract. A contractor that has gross proceeds of sales or gross
37 income derived from a contract that is not subject to tax under this
38 paragraph is subject to tax on a contract that includes modification
39 activities.

40 21. The gross proceeds of sales or gross income derived from a contract
41 entered into for the construction of a mixed waste processing facility that
42 is located on a municipal solid waste landfill and that is constructed for
43 the purpose of recycling solid waste or producing renewable energy from
44 landfill waste. For the purposes of this paragraph:

1 (a) "Mixed waste processing facility" means a solid waste facility
2 that is owned, operated or used for the treatment, processing or disposal of
3 solid waste, recyclable solid waste, conditionally exempt small quantity
4 generator waste or household hazardous waste. For the purposes of
5 this subdivision, "conditionally exempt small quantity generator waste",
6 "household hazardous waste" and "solid waste facility" have the same meanings
7 prescribed in section 49-701, except that solid waste facility does include a
8 site that stores, treats or processes paper, glass, wood, cardboard,
9 household textiles, scrap metal, plastic, vegetative waste, aluminum, steel
10 or other recyclable material.

11 (b) "Municipal solid waste landfill" has the same meaning prescribed
12 in section 49-701.

13 (c) "Recycling" means collecting, separating, cleansing, treating and
14 reconstituting recyclable solid waste that would otherwise become solid
15 waste, but does not include incineration or other similar processes.

16 (d) "Renewable energy" has the same meaning prescribed in section
17 41-1511.

18 C. Entitlement to the deduction pursuant to subsection B, paragraph 7
19 of this section is subject to the following provisions:

20 1. A prime contractor may establish entitlement to the deduction by
21 both:

22 (a) Marking the invoice for the transaction to indicate that the gross
23 proceeds of sales or gross income derived from the transaction was deducted
24 from the base.

25 (b) Obtaining a certificate executed by the purchaser indicating the
26 name and address of the purchaser, the precise nature of the business of the
27 purchaser, the purpose for which the purchase was made, the necessary facts
28 to establish the deductibility of the property under section 42-5061,
29 subsection B, and a certification that the person executing the certificate
30 is authorized to do so on behalf of the purchaser. The certificate may be
31 disregarded if the prime contractor has reason to believe that the
32 information contained in the certificate is not accurate or complete.

33 2. A person who does not comply with paragraph 1 of this subsection
34 may establish entitlement to the deduction by presenting facts necessary to
35 support the entitlement, but the burden of proof is on that person.

36 3. The department may prescribe a form for the certificate described
37 in paragraph 1, subdivision (b) of this subsection. The department may also
38 adopt rules that describe the transactions with respect to which a person is
39 not entitled to rely solely on the information contained in the certificate
40 provided in paragraph 1, subdivision (b) of this subsection but must instead
41 obtain such additional information as required in order to be entitled to the
42 deduction.

43 4. If a prime contractor is entitled to a deduction by complying with
44 paragraph 1 of this subsection, the department may require the purchaser who
45 caused the execution of the certificate to establish the accuracy and

1 completeness of the information required to be contained in the certificate
2 that would entitle the prime contractor to the deduction. If the purchaser
3 cannot establish the accuracy and completeness of the information, the
4 purchaser is liable in an amount equal to any tax, penalty and interest that
5 the prime contractor would have been required to pay under article 1 of this
6 chapter if the prime contractor had not complied with paragraph 1 of this
7 subsection. Payment of the amount under this paragraph exempts the purchaser
8 from liability for any tax imposed under article 4 of this chapter. The
9 amount shall be treated as a transaction privilege tax to the purchaser and
10 as tax revenues collected from the prime contractor in order to designate the
11 distribution base for purposes of section 42-5029.

12 D. Subcontractors or others who perform services in respect to any
13 improvement, building, highway, road, railroad, excavation, manufactured
14 building or other structure, project, development or improvement are not
15 subject to tax if they can demonstrate that the job was within the control of
16 a prime contractor or contractors or a dealership of manufactured buildings
17 and that the prime contractor or dealership is liable for the tax on the
18 gross income, gross proceeds of sales or gross receipts attributable to the
19 job and from which the subcontractors or others were paid.

20 E. Amounts received by a contractor for a project are excluded from
21 the contractor's gross proceeds of sales or gross income derived from the
22 business if the person who hired the contractor executes and provides a
23 certificate to the contractor stating that the person providing the
24 certificate is a prime contractor and is liable for the tax under article 1
25 of this chapter. The department shall prescribe the form of the certificate.
26 If the contractor has reason to believe that the information contained on the
27 certificate is erroneous or incomplete, the department may disregard the
28 certificate. If the person who provides the certificate is not liable for
29 the tax as a prime contractor, that person is nevertheless deemed to be the
30 prime contractor in lieu of the contractor and is subject to the tax under
31 this section on the gross receipts or gross proceeds received by the
32 contractor.

33 F. Every person engaging or continuing in this state in the business
34 of prime contracting or dealership of manufactured buildings shall present to
35 the purchaser of such prime contracting or manufactured building a written
36 receipt of the gross income or gross proceeds of sales from such activity and
37 shall separately state the taxes to be paid pursuant to this section.

38 G. For the purposes of section 42-5032.01, the department shall
39 separately account for revenues collected under the prime contracting
40 classification from any prime contractor engaged in the preparation or
41 construction of a multipurpose facility, and related infrastructure, that is
42 owned, operated or leased by the tourism and sports authority pursuant to
43 title 5, chapter 8.

44 H. For the purposes of section 42-5032.02, from and after
45 September 30, 2013, the department shall separately account for revenues

1 reported and collected under the prime contracting classification from any
2 prime contractor engaged in the construction of any buildings and associated
3 improvements that are for the benefit of a manufacturing facility. For the
4 purposes of this subsection, "associated improvements" and "manufacturing
5 facility" have the same meanings prescribed in section 42-5032.02.

6 I. The gross proceeds of sales or gross income derived from a contract
7 for lawn maintenance services are not subject to tax under this section if
8 the contract does not include landscaping activities. Lawn maintenance
9 service is a service pursuant to section 42-5061, subsection A, paragraph 1,
10 and includes lawn mowing and edging, weeding, repairing sprinkler heads or
11 drip irrigation heads, seasonal replacement of flowers, refreshing gravel,
12 lawn de-thatching, seeding winter lawns, leaf and debris collection and
13 removal, tree or shrub pruning or clipping, garden and gravel raking and
14 applying pesticides, as defined in section 3-361, and fertilizer materials,
15 as defined in section 3-262.

16 J. The gross proceeds of sales or gross income derived from
17 landscaping activities are subject to tax under this section. Landscaping
18 includes installing lawns, grading or leveling ground, installing gravel or
19 boulders, planting trees and other plants, felling trees, removing or
20 mulching tree stumps, removing other imbedded plants, building or modifying
21 irrigation berms, repairing sprinkler or watering systems, installing
22 railroad ties and installing underground sprinkler or watering systems.

23 K. The portion of gross proceeds of sales or gross income attributable
24 to the actual direct costs of providing architectural or engineering services
25 that are incorporated in a contract is not subject to tax under this section.
26 For the purposes of this subsection, "direct costs" means the portion of the
27 actual costs that are directly expended in providing architectural or
28 engineering services.

29 L. Operating a landfill or a solid waste disposal facility is not
30 subject to taxation under this section, including filling, compacting and
31 creating vehicle access to and from cell sites within the landfill.
32 Constructing roads to a landfill or solid waste disposal facility and
33 constructing cells within a landfill or solid waste disposal facility may be
34 deemed prime contracting under this section.

35 M. The following apply in determining the taxable situs of sales of
36 manufactured buildings:

37 1. For sales in this state where the manufactured building dealer
38 contracts to deliver the building to a setup site or to perform the setup in
39 this state, the taxable situs is the setup site.

40 2. For sales in this state where the manufactured building dealer does
41 not contract to deliver the building to a setup site or does not perform the
42 setup, the taxable situs is the location of the dealership where the building
43 is delivered to the buyer.

44 3. For sales in this state where the ~~dealership of~~ manufactured
45 ~~buildings~~ BUILDING DEALER contracts to deliver the building to a setup site

1 that is outside this state, the situs is outside this state and the
2 transaction is excluded from tax.

3 N. The gross proceeds of sales or gross income attributable to a
4 written contract for design phase services or professional services, executed
5 before modification begins and with terms, conditions and pricing of all of
6 these services separately stated in the contract from those for construction
7 phase services, is not subject to tax under this section, regardless of
8 whether the services are provided sequential to or concurrent with prime
9 contracting activities that are subject to tax under this section. This
10 subsection does not include the gross proceeds of sales or gross income
11 attributable to construction phase services. For the purposes of this
12 subsection:

13 1. "Construction phase services" means services for the execution and
14 completion of any modification, including the following:

15 (a) Administration or supervision of any modification performed on the
16 project, including team management and coordination, scheduling, cost
17 controls, submittal process management, field management, safety program,
18 close-out process and warranty period services.

19 (b) Administration or supervision of any modification performed
20 pursuant to a punch list. For the purposes of this subdivision, "punch list"
21 means minor items of modification work performed after substantial completion
22 and before final completion of the project.

23 (c) Administration or supervision of any modification performed
24 pursuant to change orders. For the purposes of this subdivision, "change
25 order" means a written instrument issued after execution of a contract for
26 modification work, providing for all of the following:

27 (i) The scope of a change in the modification work, contract for
28 modification work or other contract documents.

29 (ii) The amount of an adjustment, if any, to the guaranteed maximum
30 price as set in the contract for modification work. For the purposes of this
31 item, "guaranteed maximum price" means the amount guaranteed to be the
32 maximum amount due to a prime contractor for the performance of all
33 modification work for the project.

34 (iii) The extent of an adjustment, if any, to the contract time of
35 performance set forth in the contract.

36 (d) Administration or supervision of any modification performed
37 pursuant to change directives. For the purposes of this subdivision, "change
38 directive" means a written order directing a change in modification work
39 before agreement on an adjustment of the guaranteed maximum price or contract
40 time.

41 (e) Inspection to determine the dates of substantial completion or
42 final completion.

43 (f) Preparation of any manuals, warranties, as-built drawings, spares
44 or other items the prime contractor must furnish pursuant to the contract for
45 modification work. For the purposes of this subdivision, "as-built drawing"

1 means a drawing that indicates field changes made to adapt to field
2 conditions, field changes resulting from change orders or buried and
3 concealed installation of piping, conduit and utility services.

4 (g) Preparation of status reports after modification work has begun
5 detailing the progress of work performed, including preparation of any of the
6 following:

7 (i) Master schedule updates.

8 (ii) Modification work cash flow projection updates.

9 (iii) Site reports made on a periodic basis.

10 (iv) Identification of discrepancies, conflicts or ambiguities in
11 modification work documents that require resolution.

12 (v) Identification of any health and safety issues that have arisen in
13 connection with the modification work.

14 (h) Preparation of daily logs of modification work, including
15 documentation of personnel, weather conditions and on-site occurrences.

16 (i) Preparation of any submittals or shop drawings used by the prime
17 contractor to illustrate details of the modification work performed.

18 (j) Administration or supervision of any other activities for which a
19 prime contractor receives a certificate for payment or certificate for final
20 payment based on the progress of modification work performed on the project.

21 2. "Design phase services" means services for developing and
22 completing a design for a project that are not construction phase services,
23 including the following:

24 (a) Evaluating surveys, reports, test results or any other information
25 on-site conditions for the project, including physical characteristics, legal
26 limitations and utility locations for the site.

27 (b) Evaluating any criteria or programming objectives for the project
28 to ascertain requirements for the project, such as physical requirements
29 affecting cost or projected utilization of the project.

30 (c) Preparing drawings and specifications for architectural program
31 documents, schematic design documents, design development documents,
32 modification work documents or documents that identify the scope of or
33 materials for the project.

34 (d) Preparing an initial schedule for the project, excluding the
35 preparation of updates to the master schedule after modification work has
36 begun.

37 (e) Preparing preliminary estimates of costs of modification work
38 before completion of the final design of the project, including an estimate
39 or schedule of values for any of the following:

40 (i) Labor, materials, machinery and equipment, tools, water, heat,
41 utilities, transportation and other facilities and services used in the
42 execution and completion of modification work, regardless of whether they are
43 temporary or permanent or whether they are incorporated in the modifications.

44 (ii) The cost of labor and materials to be furnished by the owner of
45 the real property.

1 (iii) The cost of any equipment of the owner of the real property to
2 be assigned by the owner to the prime contractor.

3 (iv) The cost of any labor for installation of equipment separately
4 provided by the owner of the real property that has been designed, specified,
5 selected or specifically provided for in any design document for the project.

6 (v) Any fee paid by the owner of the real property to the prime
7 contractor pursuant to the contract for modification work.

8 (vi) Any bond and insurance premiums.

9 (vii) Any applicable taxes.

10 (viii) Any contingency fees for the prime contractor that may be used
11 before final completion of the project.

12 (f) Reviewing and evaluating cost estimates and project documents to
13 prepare recommendations on site use, site improvements, selection of
14 materials, building systems and equipment, modification feasibility,
15 availability of materials and labor, local modification activity as related
16 to schedules and time requirements for modification work.

17 (g) Preparing the plan and procedures for selection of subcontractors,
18 including any prequalification of subcontractor candidates.

19 3. "Professional services" means architect services, assayer services,
20 engineer services, geologist services, land surveying services or landscape
21 architect services that are within the scope of those services as provided in
22 title 32, chapter 1 and for which gross proceeds of sales or gross income has
23 not otherwise been deducted under subsection K of this section.

24 O. The gross proceeds of sales or gross income derived from a contract
25 with the owner of real property or the person owning the improvements to the
26 real property for the maintenance, repair, replacement or alteration of
27 existing property is not subject to tax under this section if the contract
28 does not include modification activities, except as specified in this
29 subsection. The gross proceeds of sales or gross income derived from a
30 de minimis amount of modification activity that is essential to the
31 completion of the maintenance, repair, replacement or alteration contract
32 does not subject the entire contract to tax under this section. For the
33 purposes of this subsection, each contract or project is independent of any
34 other contract.

35 P. Notwithstanding subsection Q, paragraph 8 of this section, a person
36 owning real property who enters into a contract for sale of the real
37 property, who is responsible to the new owner of the property for
38 modifications made to the property in the period subsequent to the transfer
39 of title and who receives a consideration for the modifications is considered
40 a prime contractor solely for purposes of taxing the gross proceeds of sale
41 or gross income received for the modifications made subsequent to the
42 transfer of title. The original owner's gross proceeds of sale or gross
43 income received for the modifications shall be determined according to the
44 following methodology:

1 1. If any part of the contract for sale of the property specifies
2 amounts to be paid to the original owner for the modifications to be made in
3 the period subsequent to the transfer of title, the amounts are included in
4 the original owner's gross proceeds of sale or gross income under this
5 section. Proceeds from the sale of the property that are received after
6 transfer of title and that are unrelated to the modifications made subsequent
7 to the transfer of title are not considered gross proceeds of sale or gross
8 income from the modifications.

9 2. If the original owner enters into an agreement separate from the
10 contract for sale of the real property providing for amounts to be paid to
11 the original owner for the modifications to be made in the period subsequent
12 to the transfer of title to the property, the amounts are included in the
13 original owner's gross proceeds of sale or gross income received for the
14 modifications made subsequent to the transfer of title.

15 3. If the original owner is responsible to the new owner for
16 modifications made to the property in the period subsequent to the transfer
17 of title and derives any gross proceeds of sale or gross income from the
18 project subsequent to the transfer of title other than a delayed disbursement
19 from escrow unrelated to the modifications, it is presumed that the amounts
20 are received for the modifications made subsequent to the transfer of title
21 unless the contrary is established by the owner through its books, records
22 and papers kept in the regular course of business.

23 4. The tax base of the original owner is computed in the same manner
24 as a prime contractor under this section.

25 Q. NOTWITHSTANDING SUBSECTION B OF THIS SECTION, THE ACTIVITIES
26 DESCRIBED IN SUBSECTION B, PARAGRAPHS 1, 4, 5, 6, 7, 9, 10, 14, 15, 16, 17
27 AND 19 ARE NOT DEDUCTIBLE IN COMPUTING THE TAX BASE FOR TAXABLE PERIODS
28 BEGINNING FROM AND AFTER DECEMBER 31, 2025.

29 ~~Q.~~ R. For the purposes of this section:

30 1. "Contracting" means engaging in business as a contractor.

31 2. "Contractor" is synonymous with the term "builder" and means any
32 person or organization that undertakes to or offers to undertake to, or
33 purports to have the capacity to undertake to, or submits a bid to, or does
34 personally or by or through others, modify any building, highway, road,
35 railroad, excavation, manufactured building or other structure, project,
36 development or improvement, or to do any part of such a project, including
37 the erection of scaffolding or other structure or works in connection with
38 such a project, and includes subcontractors and specialty contractors. For
39 all purposes of taxation or deduction, this definition shall govern without
40 regard to whether or not such contractor is acting in fulfillment of a
41 contract.

42 3. "Manufactured building" means a manufactured home, mobile home or
43 factory-built building, as defined in section 41-2142.

1 4. "Manufactured building dealer" means a dealer who either:

2 (a) Is licensed pursuant to title 41, chapter 16 and who sells
3 manufactured buildings to the final consumer.

4 (b) Supervises, performs or coordinates the excavation and completion
5 of site improvements or the setup or moving of a manufactured building
6 including the contracting, if any, with any subcontractor or specialty
7 contractor for the completion of the contract.

8 5. "Modification" means construction, improvement, movement, wreckage
9 or demolition.

10 6. "Modify" means to construct, improve, move, wreck or demolish.

11 7. "Prime contracting" means engaging in business as a prime
12 contractor.

13 8. "Prime contractor" means a contractor who supervises, performs or
14 coordinates the modification of any building, highway, road, railroad,
15 excavation, manufactured building or other structure, project, development or
16 improvement including the contracting, if any, with any subcontractors or
17 specialty contractors and who is responsible for the completion of the
18 contract. Except as provided in subsections E and P of this section, a
19 person who owns real property, who engages one or more contractors to modify
20 that real property and who does not itself modify that real property is not a
21 prime contractor within the meaning of this paragraph regardless of the
22 existence of a contract for sale or the subsequent sale of that real
23 property.

24 9. "Sale of a used manufactured building" does not include a lease of
25 a used manufactured building.

26 Sec. 17. [Delayed repeal](#)

27 Title 42, chapter 5, article 3, Arizona Revised Statutes, is repealed
28 from and after December 31, 2025.

29 Sec. 18. Section 42-5159, Arizona Revised Statutes, is amended to
30 read:

31 42-5159. [Exemptions](#)

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

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

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

44 3. Tangible personal property, the storage, use or consumption of
45 which the constitution or laws of the United States prohibit this state from

1 taxing or to the extent that the rate or imposition of tax is
2 unconstitutional under the laws of the United States.

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

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

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

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

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

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

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

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

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

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

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

- 1 13. Tangible personal property purchased by:
- 2 (a) A hospital organized and operated exclusively for charitable
- 3 purposes, no part of the net earnings of which inures to the benefit of any
- 4 private shareholder or individual.
- 5 (b) A hospital operated by this state or a political subdivision of
- 6 this state.
- 7 (c) A licensed nursing care institution or a licensed residential care
- 8 institution or a residential care facility operated in conjunction with a
- 9 licensed nursing care institution or a licensed kidney dialysis center, which
- 10 provides medical services, nursing services or health related services and is
- 11 not used or held for profit.
- 12 (d) A qualifying health care organization, as defined in section
- 13 42-5001, if the tangible personal property is used by the organization solely
- 14 to provide health and medical related educational and charitable services.
- 15 (e) A qualifying health care organization as defined in section
- 16 42-5001 if the organization is dedicated to providing educational,
- 17 therapeutic, rehabilitative and family medical education training for blind
- 18 and visually impaired children and children with ~~multidisabilities~~ MULTIPLE
- 19 DISABILITIES from the time of birth to age twenty-one.
- 20 (f) A nonprofit charitable organization that has qualified under
- 21 section 501(c)(3) of the United States internal revenue code and that engages
- 22 in and uses such property exclusively in programs for persons with mental or
- 23 physical disabilities if the programs are exclusively for training, job
- 24 placement, rehabilitation or testing.
- 25 (g) A person that is subject to tax under article 1 of this chapter by
- 26 reason of being engaged in business classified under the prime contracting
- 27 classification under section 42-5075, or a subcontractor working under the
- 28 control of a prime contractor, if the tangible personal property is any of
- 29 the following:
- 30 (i) Incorporated or fabricated by the contractor into a structure,
- 31 project, development or improvement in fulfillment of a contract.
- 32 (ii) Used in environmental response or remediation activities under
- 33 section 42-5075, subsection B, paragraph 6.
- 34 (h) A nonprofit charitable organization that has qualified under
- 35 section 501(c)(3) of the internal revenue code if the property is purchased
- 36 from the parent or an affiliate organization that is located outside this
- 37 state.
- 38 (i) A qualifying community health center as defined in section
- 39 42-5001.
- 40 (j) A nonprofit charitable organization that has qualified under
- 41 section 501(c)(3) of the internal revenue code and that regularly serves
- 42 meals to the needy and indigent on a continuing basis at no cost.
- 43 (k) A person engaged in business under the transient lodging
- 44 classification if the property is a personal hygiene item or articles used by
- 45 human beings for food, drink or condiment, except alcoholic beverages, which

1 are furnished without additional charge to and intended to be consumed by the
2 transient during the transient's occupancy.

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

11 (m) A qualifying health sciences educational institution as defined in
12 section 42-5001.

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

18 15. Tangible personal property sold by:

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

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

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

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

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

39 18. Prescription eyeglasses and contact lenses.

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

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

42 21. Durable medical equipment that has a centers for medicare and
43 medicaid services common procedure code, is designated reimbursable by
44 medicare, is prescribed by a person who is licensed under title 32, chapter
45 7, 13, 17 or 29, can withstand repeated use, is primarily and customarily

1 used to serve a medical purpose, is generally not useful to a person in the
2 absence of illness or injury and is appropriate for use in the home.

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

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

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

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

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

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

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

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

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

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

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

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

45 (b) Public educational institutions.

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

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

6 34. Machinery, equipment, technology or related supplies that are only
7 useful to assist a person ~~who has~~ WITH a physical disability as defined in
8 section 46-191, ~~OR A PERSON WHO~~ has a developmental disability as defined in
9 section 36-551 or has a head injury as defined in section 41-3201 to be more
10 independent and functional.

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

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

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

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

35 39. 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. For the purposes of this
41 paragraph:

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

1 expense account and allocated to various contracts based on generally
2 accepted accounting principles and consistent with government contract
3 accounting standards.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 54. Computer data center equipment purchased by the owner, operator or
44 qualified colocation tenant of the computer data center or an authorized
45 agent of the owner, operator or qualified colocation tenant during the

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

9 55. Coal acquired from an owner or operator of a power plant by a
10 person who is responsible for refining coal if both of the following apply:

11 (a) The transfer of title or possession of the coal is for the purpose
12 of refining the coal.

13 (b) The title or possession of the coal is transferred back to the
14 owner or operator of the power plant after completion of the coal refining
15 process. For the purposes of this subdivision, "coal refining process" means
16 the application of a coal additive system that aids the reduction of power
17 plant emissions during the combustion of coal and the treatment of flue gas.

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

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

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

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

40 4. Machinery, equipment or transmission lines used directly in
41 producing or transmitting electrical power, but not including distribution.
42 Transformers and control equipment used at transmission substation sites
43 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 that are used directly
29 to transport persons or property for hire or pursuant to a governmentally
30 adopted and controlled urban mass transportation program and that are sold to
31 bus companies holding a federal certificate of convenience and necessity or
32 operated by any city, town or other governmental entity or by any person
33 contracting with such governmental entity as part of a governmentally adopted
34 and controlled program to provide urban mass transportation.

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

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

43 (a) "New machinery and equipment" means machinery or equipment that
44 has never been sold at retail except pursuant to leases or rentals that do
45 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"
32 means the three hundred sixty-five day period beginning on the later of the
33 date on which the tangible personal property is purchased or the date on
34 which the direct broadcast satellite television or data transmission service
35 first 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

1 contamination or to control airflow, temperature, humidity, chemical purity
2 or other environmental conditions or manufacturing tolerances, as well as the
3 production machinery and equipment operating in conjunction with the clean
4 room environment.

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

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

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

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

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

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

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

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

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

1 C. The exemptions provided by subsection B of this section do not
2 include:

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

7 2. Janitorial equipment and hand tools.

8 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

43 2. Reimbursement or contribution compensation to any person or persons
44 owning a utility system for property and equipment installed to provide
45 utility access to, on or across the land of an actual utility consumer if the

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

3 G. The tax levied by this article does not apply to the purchase price
4 of electricity or natural gas by a business that is principally engaged in
5 manufacturing or smelting operations and that uses at least fifty-one ~~per~~
6 ~~cent~~ PERCENT of the electricity or natural gas in the manufacturing or
7 smelting operations. This subsection does not apply to gas transportation
8 services. For the purposes of this subsection:

9 1. "Gas transportation services" means the services of transporting
10 natural gas to a natural gas customer or to a natural gas distribution
11 facility if the natural gas was purchased from a supplier other than the
12 utility.

13 2. "Manufacturing" means the performance as a business of an
14 integrated series of operations that places tangible personal property in a
15 form, composition or character different from that in which it was acquired
16 and transforms it into a different product with a distinctive name, character
17 or use. Manufacturing does not include processing, fabricating, job
18 printing, mining, generating electricity or operating a restaurant.

19 3. "Principally engaged" means at least fifty-one ~~per-cent~~ PERCENT of
20 the business is a manufacturing or smelting operation.

21 4. "Smelting" means to melt or fuse a metalliferous mineral, often
22 with an accompanying chemical change, usually to separate the metal.

23 H. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE TANGIBLE
24 PERSONAL PROPERTY IN THE FOLLOWING CATEGORIES IS NOT EXEMPT FOR TAXABLE
25 PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2025:

26 1. SUBSECTION A, PARAGRAPHS 3, 4, 7, 8, 9, 12, 13, 14, 15, 16, 17, 18,
27 19, 20, 21, 22, 24, 26, 27, 28, 29, 30, 33, 35, 36, 37, 40, 42, 43, 44, 48,
28 50, 51, 52, 53 AND 54 OF THIS SECTION.

29 2. SUBSECTION B, PARAGRAPHS 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13,
30 14, 15, 16, 17, 18, 19, 20 AND 21 OF THIS SECTION.

31 ~~H.~~ I. For the purposes of subsection B of this section:

32 1. "Aircraft" includes:

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

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

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

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

- 1 1. SECTIONS 43-1085 AND 43-1164, RELATING TO COMMERCIAL AND INDUSTRIAL
2 SOLAR ENERGY DEVICES.
- 3 2. SECTION 43-1086, RELATING TO THE MILITARY FAMILY RELIEF FUND.
- 4 3. SECTION 43-1089.01, RELATING TO CONTRIBUTIONS TO PUBLIC SCHOOLS.
- 5 B. THE REPEAL APPLIES WITH RESPECT TO TAXABLE YEARS BEGINNING FROM AND
6 AFTER DECEMBER 31, 2019, BUT DOES NOT AFFECT THE CARRYFORWARD OF ANY PORTION
7 OF A TAX CREDIT TO WHICH A TAXPAYER IS ENTITLED.
- 8 43-223.21. Repeal of income tax credits; 2021
- 9 A. THE FOLLOWING ARE REPEALED FROM AND AFTER DECEMBER 31, 2020:
- 10 1. SECTIONS 43-1089.02 AND 43-1181, RELATING TO DONATION OF SCHOOL
11 SITES.
- 12 2. SECTIONS 43-1090 AND 43-1176, RELATING TO SOLAR HOT WATER PLUMBING
13 STUB OUTS AND ELECTRIC VEHICLE RECHARGE OUTLETS.
- 14 3. SECTION 43-1178, RELATING TO COAL CONSUMED IN ELECTRICAL
15 GENERATION.
- 16 B. THE REPEAL APPLIES WITH RESPECT TO TAXABLE YEARS BEGINNING FROM AND
17 AFTER DECEMBER 31, 2020, BUT DOES NOT AFFECT THE CARRYFORWARD OF ANY PORTION
18 OF A TAX CREDIT TO WHICH A TAXPAYER IS ENTITLED.
- 19 43-223.22. Repeal of income tax credits; 2022
- 20 A. THE FOLLOWING ARE REPEALED FROM AND AFTER DECEMBER 31, 2021:
- 21 1. SECTIONS 43-1074.01 AND 43-1168, RELATING TO INCREASED RESEARCH
22 ACTIVITIES.
- 23 2. SECTIONS 43-1081 AND 43-1170, RELATING TO POLLUTION CONTROL
24 EQUIPMENT.
- 25 B. THE REPEAL APPLIES WITH RESPECT TO TAXABLE YEARS BEGINNING FROM AND
26 AFTER DECEMBER 31, 2021, BUT DOES NOT AFFECT THE CARRYFORWARD OF ANY PORTION
27 OF A TAX CREDIT TO WHICH A TAXPAYER IS ENTITLED.
- 28 43-223.23. Repeal of income tax credits; 2023
- 29 A. THE FOLLOWING ARE REPEALED FROM AND AFTER DECEMBER 31, 2022:
- 30 1. SECTIONS 43-1076 AND 43-1162, RELATING TO HEALTHY FOREST
31 ENTERPRISES.
- 32 2. SECTIONS 43-1076.01 AND 43-1162.01, RELATING TO ECOLOGICAL
33 RESTORATION WORKFORCE TRAINING.
- 34 3. SECTIONS 43-1074 AND 43-1161, RELATING TO NEW EMPLOYMENT.
- 35 B. THE REPEAL APPLIES WITH RESPECT TO TAXABLE YEARS BEGINNING FROM AND
36 AFTER DECEMBER 31, 2022, BUT DOES NOT AFFECT THE CARRYFORWARD OF ANY PORTION
37 OF A TAX CREDIT TO WHICH A TAXPAYER IS ENTITLED.
- 38 43-223.24. Repeal of income tax credits; 2024
- 39 A. THE FOLLOWING ARE REPEALED FROM AND AFTER DECEMBER 31, 2023:
- 40 1. SECTION 43-1084, RELATING TO AGRICULTURAL WATER CONSERVATION
41 SYSTEMS.
- 42 2. SECTIONS 43-1081.01 AND 43-1170.01, RELATING TO AGRICULTURAL
43 POLLUTION CONTROL EQUIPMENT.
- 44 3. SECTIONS 43-1083.01 AND 43-1164.01, RELATING TO RENEWABLE ENERGY
45 INDUSTRIES.

1 B. THE REPEAL APPLIES WITH RESPECT TO TAXABLE YEARS BEGINNING FROM AND
2 AFTER DECEMBER 31, 2023, BUT DOES NOT AFFECT THE CARRYFORWARD OF ANY PORTION
3 OF A TAX CREDIT TO WHICH A TAXPAYER IS ENTITLED.

4 43-223.25. Repeal of income tax credits; 2025

5 A. THE FOLLOWING ARE REPEALED FROM AND AFTER DECEMBER 31, 2024:

6 1. SECTIONS 43-1083.04 AND 43-1164.05, RELATING TO RENEWABLE ENERGY
7 INVESTMENT AND PRODUCTION FOR SELF-CONSUMPTION BY MANUFACTURERS.

8 2. SECTIONS 43-1083.03 AND 43-1164.04, RELATING TO QUALIFIED
9 FACILITIES.

10 B. THE REPEAL APPLIES WITH RESPECT TO TAXABLE YEARS BEGINNING FROM AND
11 AFTER DECEMBER 31, 2024, BUT DOES NOT AFFECT THE CARRYFORWARD OF ANY PORTION
12 OF A TAX CREDIT TO WHICH A TAXPAYER IS ENTITLED.

13 43-223.26. Repeal of income tax credits; 2026

14 A. THE FOLLOWING ARE REPEALED FROM AND AFTER DECEMBER 31, 2025:

15 1. SECTIONS 43-1079.01 AND 43-1167.01, RELATING TO EMPLOYING NATIONAL
16 GUARD MEMBERS.

17 2. SECTIONS 43-1087 AND 43-1175, RELATING TO EMPLOYING TEMPORARY
18 ASSISTANCE FOR NEEDY FAMILIES RECIPIENTS.

19 3. SECTION 43-1088, RELATING TO CONTRIBUTIONS TO QUALIFYING CHARITABLE
20 ORGANIZATIONS.

21 B. THE REPEAL APPLIES WITH RESPECT TO TAXABLE YEARS BEGINNING FROM AND
22 AFTER DECEMBER 31, 2025, BUT DOES NOT AFFECT THE CARRYFORWARD OF ANY PORTION
23 OF A TAX CREDIT TO WHICH A TAXPAYER IS ENTITLED.

24 Sec. 23. Requirements for enactment; two-thirds vote

25 Pursuant to article IX, section 22, Constitution of Arizona, this act
26 is effective only on the affirmative vote of at least two-thirds of the
27 members of each house of the legislature and is effective immediately on the
28 signature of the governor or, if the governor vetoes this act, on the
29 subsequent affirmative vote of at least three-fourths of the members of each
30 house of the legislature.