

COMMITTEE ON FINANCE  
SENATE AMENDMENTS TO H.B. 2676  
(Reference to House engrossed bill)

1 Strike everything after the enacting clause and insert:

2           “Section 1. Section 42-5009, Arizona Revised Statutes, is amended to  
3 read:

4           42-5009. Certificates establishing deductions; liability for making  
5 false certificate

6           A. A person who conducts any business classified under article 2 of  
7 this chapter may establish entitlement to the allowable deductions from the  
8 tax base of that business by both:

9           1. Marking the invoice for the transaction to indicate that the gross  
10 proceeds of sales or gross income derived from the transaction was deducted  
11 from the tax base.

12           2. Obtaining a certificate executed by the purchaser indicating the  
13 name and address of the purchaser, the precise nature of the business of the  
14 purchaser, the purpose for which the purchase was made, the necessary facts  
15 to establish the appropriate deduction and the tax license number of the  
16 purchaser to the extent the deduction depends on the purchaser conducting  
17 business classified under article 2 of this chapter and a certification that  
18 the person executing the certificate is authorized to do so on behalf of the  
19 purchaser. The certificate may be disregarded if the seller has reason to  
20 believe that the information contained in the certificate is not accurate or  
21 complete.

22           B. A person who does not comply with subsection A of this section may  
23 establish entitlement to the deduction by presenting facts necessary to  
24 support the entitlement, but the burden of proof is on that person.

1           C. The department may prescribe a form for the certificate described  
2 in subsection A of this section. Under such rules as it may prescribe, the  
3 department may also describe transactions with respect to which a person is  
4 not entitled to rely solely on the information contained in the certificate  
5 provided for in subsection A of this section but must instead obtain such  
6 additional information as required by the rules in order to be entitled to  
7 the deduction.

8           D. If a seller is entitled to a deduction by complying with subsection  
9 A of this section, the department may require the purchaser that caused the  
10 execution of the certificate to establish the accuracy and completeness of  
11 the information required to be contained in the certificate that would  
12 entitle the seller to the deduction. If the purchaser cannot establish the  
13 accuracy and completeness of the information, the purchaser is liable in an  
14 amount equal to any tax, penalty and interest that the seller would have been  
15 required to pay under this article if the seller had not complied with  
16 subsection A of this section. Payment of the amount under this subsection  
17 exempts the purchaser from liability for any tax imposed under article 4 of  
18 this chapter. The amount shall be treated as tax revenues collected from the  
19 seller in order to designate the distribution base for purposes of section  
20 42-5029.

21           E. If a seller is entitled to a deduction by complying with subsection  
22 B of this section, the department may require the purchaser to establish the  
23 accuracy and completeness of the information provided to the seller that  
24 entitled the seller to the deduction. If the purchaser cannot establish the  
25 accuracy and completeness of the information, the purchaser is liable in an  
26 amount equal to any tax, penalty and interest that the seller would have been  
27 required to pay under this article if the seller had not complied with  
28 subsection B of this section. Payment of the amount under this subsection  
29 exempts the purchaser from liability for any tax imposed under article 4 of  
30 this chapter. The amount shall be treated as tax revenues collected from the  
31 seller in order to designate the distribution base for purposes of section  
32 42-5029.

1           F. The department may prescribe a form for a certificate used to  
2 establish entitlement to the deductions described in section 42-5061,  
3 subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3.  
4 Under rules the department may prescribe, the department may also require  
5 additional information for the seller to be entitled to the deduction. If a  
6 seller is entitled to the deductions described in section 42-5061, subsection  
7 A, paragraph 46 and section 42-5063, subsection B, paragraph 3, the  
8 department may require the purchaser who executed the certificate to  
9 establish the accuracy and completeness of the information contained in the  
10 certificate that would entitle the seller to the deduction. If the purchaser  
11 cannot establish the accuracy and completeness of the information, the  
12 purchaser is liable in an amount equal to any tax, penalty and interest that  
13 the seller would have been required to pay under this article. Payment of  
14 the amount under this subsection exempts the purchaser from liability for any  
15 tax imposed under article 4 of this chapter. The amount shall be treated as  
16 tax revenues collected from the seller in order to designate the distribution  
17 base for purposes of section 42-5029.

18           G. If a seller claims a deduction under section 42-5061, subsection A,  
19 paragraph 25 and establishes entitlement to the deduction with an exemption  
20 letter that the purchaser received from the department and the exemption  
21 letter was based on a contingent event, the department may require the  
22 purchaser that received the exemption letter to establish the satisfaction of  
23 the contingent event within a reasonable time. If the purchaser cannot  
24 establish the satisfaction of the event, the purchaser is liable in an amount  
25 equal to any tax, penalty and interest that the seller would have been  
26 required to pay under this article if the seller had not been furnished the  
27 exemption letter. Payment of the amount under this subsection exempts the  
28 purchaser from liability for any tax imposed under article 4 of this chapter.  
29 The amount shall be treated as tax revenues collected from the seller in  
30 order to designate the distribution base for purposes of section 42-5029.  
31 For the purposes of this subsection, "reasonable time" means a time

1 limitation that the department determines and that does not exceed the time  
2 limitations pursuant to section 42-1104.

3 H. The department shall prescribe forms for certificates used to  
4 establish the satisfaction of the criteria necessary to qualify the sale of a  
5 motor vehicle for the deductions described in section 42-5061, subsection A,  
6 paragraph 14, paragraph 28, subdivision (a) and paragraph 44 and  
7 subsection U. Except as provided in subsection J of this section, to  
8 establish entitlement to these deductions, a motor vehicle dealer shall  
9 retain:

10 1. A valid certificate as prescribed by this subsection completed by  
11 the purchaser and obtained prior to the issuance of the nonresident  
12 registration permit authorized by section 28-2154.

13 2. A copy of the nonresident registration permit authorized by section  
14 28-2154.

15 3. A legible copy of a current valid driver license issued to the  
16 purchaser by another state or foreign country that indicates an address  
17 outside of this state. For the sale of a motor vehicle to a nonresident  
18 entity, the entity's representative must have a current valid driver license  
19 issued by the same jurisdiction as that in which the entity is located.

20 4. For the purposes of the deduction provided by section 42-5061,  
21 subsection A, paragraph 14, a certificate documenting the delivery of the  
22 motor vehicle to an out-of-state location.

23 I. Notwithstanding subsection A, paragraph 2 of this section, if a  
24 motor vehicle dealer has established entitlement to a deduction by complying  
25 with subsection H of this section, the department may require the purchaser  
26 who executed the certificate to establish the accuracy and completeness of  
27 the information contained in the certificate that entitled the motor vehicle  
28 dealer to the deduction. If the purchaser cannot establish the accuracy and  
29 completeness of the information, the purchaser is liable in an amount equal  
30 to any tax, penalty and interest that the motor vehicle dealer would have  
31 been required to pay under this article and under articles IV and V of the  
32 model city tax code as defined in section 42-6051. Payment of the amount

1 under this subsection exempts the purchaser from liability for any tax  
2 imposed under article 4 of this chapter and any tax imposed under article VI  
3 of the model city tax code as defined in section 42-6051. The amount shall  
4 be treated as tax revenues collected from the motor vehicle dealer in order  
5 to designate the distribution base for purposes of section 42-5029.

6 J. To establish entitlement to the deduction described in section  
7 42-5061, subsection A, paragraph 44, a public consignment auction dealer as  
8 defined in section 28-4301 shall submit the valid certificate prescribed by  
9 subsection H of this section to the department and retain a copy for its  
10 records.

11 K. Notwithstanding any other law, compliance with subsection H of this  
12 section by a motor vehicle dealer entitles the motor vehicle dealer to the  
13 exemption provided in section 42-6004, subsection A, paragraph 4.

14 L. The department shall prescribe a form for a certificate to be used  
15 by a person that is not subject to tax under section 42-5075 when the person  
16 is engaged by a contractor that is subject to tax under section 42-5075 for a  
17 project that is taxable under section 42-5075. The certificate permits the  
18 person purchasing tangible personal property to be incorporated or fabricated  
19 by the person into any real property, structure, project, development or  
20 improvement to provide documentation to a retailer that the sale of tangible  
21 personal property qualifies for the deduction under section 42-5061,  
22 subsection A, paragraph 27, subdivision (b). A prime contractor shall obtain  
23 the certificate from the department and shall provide a copy to any such  
24 person working on the project. The prime contractor shall obtain a new  
25 certificate for each project to which this subsection applies. For the  
26 purposes of this subsection, the following apply:

27 1. The person that is not subject to tax under section 42-5075 may use  
28 the certificate issued pursuant to this subsection only with respect to  
29 tangible personal property that will be incorporated into a project for which  
30 the gross receipts are subject to tax under section 42-5075.

1           2. The department shall issue the certificate to the prime contractor  
2 on receiving sufficient documentation to establish that the prime contractor  
3 meets the requirements of this subsection.

4           3. If any person uses the certificate provided under this subsection  
5 to purchase tangible personal property to be used in a project that is not  
6 subject to tax under section 42-5075, the person is liable in an amount equal  
7 to any tax, penalty and interest that the seller would have been required to  
8 pay under this article if the seller had not complied with subsection A of  
9 this section. Payment of the amount under this section exempts the person  
10 from liability for any tax imposed under article 4 of this chapter. The  
11 amount shall be sourced under section 42-5040, subsection A, paragraph 2.

12           M. Notwithstanding any other law, compliance with subsection L of this  
13 section by a person that is not subject to tax under section 42-5075 entitles  
14 the person to the exemption allowed by section 465, subsection (k) of the  
15 model city tax code when purchasing tangible personal property to be  
16 incorporated or fabricated by the person into any real property, structure,  
17 project, development or improvement.

18           N. A VENDOR WHO HAS REASON TO BELIEVE THAT A CERTIFICATE PRESCRIBED BY  
19 THIS SECTION IS NOT ACCURATE OR COMPLETE WILL NOT BE RELIEVED OF THE BURDEN  
20 OF PROVING ENTITLEMENT TO THE EXEMPTION. A VENDOR THAT ACCEPTS A CERTIFICATE  
21 IN GOOD FAITH WILL BE RELIEVED OF THE BURDEN OF PROOF AND THE PURCHASER MAY  
22 BE REQUIRED TO ESTABLISH THE ACCURACY OF THE CLAIMED EXEMPTION. IF THE  
23 PURCHASER CANNOT ESTABLISH THE ACCURACY AND COMPLETENESS OF THE INFORMATION  
24 PROVIDED IN THE CERTIFICATE, THE PURCHASER IS LIABLE FOR AN AMOUNT EQUAL TO  
25 THE TRANSACTION PRIVILEGE TAX, PENALTY AND INTEREST THAT THE VENDOR WOULD  
26 HAVE BEEN REQUIRED TO PAY IF THE VENDOR HAD NOT ACCEPTED THE CERTIFICATE.

27           Sec. 2. Section 42-5063, Arizona Revised Statutes, is amended to read:

28           42-5063. Utilities classification; definitions

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

30           1. Producing and furnishing or furnishing to consumers natural or  
31 artificial gas and water.

1           2. Providing to retail electric customers ancillary services, electric  
2 distribution services, electric generation services, electric transmission  
3 services and other services related to providing electricity.

4           B. The utilities classification does not include:

5           1. Sales of ancillary services, electric distribution services,  
6 electric generation services, electric transmission services and other  
7 services related to providing electricity, gas or water to a person who  
8 resells the services.

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

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

14           4. Sales of ancillary services, electric distribution services,  
15 electric generation services, electric transmission services and other  
16 services that are related to providing electricity to a retail electric  
17 customer who is located outside this state for use outside this state if the  
18 electricity is delivered to a point of sale outside this state.

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

26           6. The leasing or renting of space to make attachments to utility  
27 poles as follows:

28           (a) By a person that is engaged in business under this section.

29           (b) To a person that is engaged in business under this section or  
30 section 42-5064 or that is a cable operator.

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

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

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

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

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

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

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

31           5. The portion of gross proceeds of sales or gross income attributable  
32 to transfers of electricity by any retail electric customer owning a solar

1 photovoltaic energy generating system to an electric distribution system, if  
2 the electricity transferred is generated by the customer's system.

3 6. Gross proceeds of sales or gross income derived from sales of  
4 electricity or natural gas to a ~~business that is principally engaged~~  
5 ~~in~~ QUALIFIED manufacturing or smelting ~~operations and that uses at least~~  
6 ~~fifty-one percent of the electricity or natural gas in the manufacturing or~~  
7 ~~smelting operations~~ BUSINESS. A UTILITY THAT CLAIMS THIS DEDUCTION SHALL  
8 REPORT EACH MONTH, ON A FORM PRESCRIBED BY THE DEPARTMENT, THE NAME AND  
9 ADDRESS OF EACH QUALIFIED MANUFACTURING OR SMELTING BUSINESS FOR WHICH THIS  
10 DEDUCTION IS TAKEN. This paragraph does not apply to gas transportation  
11 services. For the purposes of this paragraph:

12 (a) "Gas transportation services" means the services of transporting  
13 natural gas to a natural gas customer or to a natural gas distribution  
14 facility if the natural gas was purchased from a supplier other than the  
15 utility.

16 (b) "Manufacturing" means the performance as a business of an  
17 integrated series of operations that places tangible personal property in a  
18 form, composition or character different from that in which it was acquired  
19 and transforms it into a different product with a distinctive name, character  
20 or use. Manufacturing does not include ~~processing, fabricating,~~ job  
21 printing, PUBLISHING, PACKAGING, mining, generating electricity or operating  
22 a restaurant.

23 ~~(c) "Principally engaged" means at least fifty-one percent of the~~  
24 ~~business is a manufacturing or smelting operation.~~

25 (c) "QUALIFIED MANUFACTURING OR SMELTING BUSINESS" MEANS ONE OF THE  
26 FOLLOWING:

27 (i) A BUSINESS THAT MANUFACTURES OR SMELTS TANGIBLE PRODUCTS IN THIS  
28 STATE, OF WHICH AT LEAST FIFTY-ONE PERCENT OF THE MANUFACTURED OR SMELTED  
29 PRODUCTS WILL BE EXPORTED OUT-OF-STATE FOR INCORPORATION INTO ANOTHER PRODUCT  
30 OR SOLD OUT-OF-STATE FOR A FINAL SALE.

1 (ii) A BUSINESS THAT DERIVES AT LEAST FIFTY-ONE PERCENT OF ITS GROSS  
2 INCOME FROM THE SALE OF MANUFACTURED OR SMELTED PRODUCTS MANUFACTURED OR  
3 SMELTED BY THE BUSINESS.

4 (iii) A BUSINESS THAT USES AT LEAST FIFTY-ONE PERCENT OF ITS SQUARE  
5 FOOTAGE IN THIS STATE FOR MANUFACTURING OR SMELTING AND BUSINESS ACTIVITIES  
6 DIRECTLY RELATED TO MANUFACTURING OR SMELTING.

7 (iv) A BUSINESS THAT EMPLOYS AT LEAST FIFTY-ONE PERCENT OF ITS  
8 WORKFORCE IN THIS STATE IN MANUFACTURING OR SMELTING AND BUSINESS ACTIVITIES  
9 DIRECTLY RELATED TO MANUFACTURING OR SMELTING.

10 (v) A BUSINESS THAT USES AT LEAST FIFTY-ONE PERCENT OF THE VALUE OF  
11 ITS CAPITALIZED ASSETS IN THIS STATE, AS REFLECTED ON THE BUSINESS'S BOOKS  
12 AND RECORDS, FOR MANUFACTURING OR SMELTING AND BUSINESS ACTIVITIES DIRECTLY  
13 RELATED TO MANUFACTURING OR SMELTING.

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

16 7. Gross proceeds of sales or gross income derived from sales of  
17 electricity or natural gas to a business that operates an international  
18 operations center in this state and that is certified by the Arizona commerce  
19 authority pursuant to section 41-1520.

20 D. For the purposes of this section:

21 1. "Ancillary services" means those services so designated in federal  
22 energy regulatory commission order 888 adopted in 1996 that include the  
23 services necessary to support the transmission of electricity from resources  
24 to loads while maintaining reliable operation of the transmission system  
25 according to good utility practice.

26 2. "Cable operator" has the same meaning prescribed in section 9-505.

27 3. "Electric distribution service" means distributing electricity to  
28 retail electric customers through the use of electric distribution  
29 facilities.

30 4. "Electric generation service" means providing electricity for sale  
31 to retail electric customers but excluding electric distribution or  
32 transmission services.

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

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

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

10          8. "Utility pole" means any wooden, metal or other pole used for  
11 utility purposes and the pole's appurtenances that are attached or authorized  
12 for attachment by the person controlling the pole.

13          Sec. 3. Section 42-5159, Arizona Revised Statutes, is amended to read:

14          42-5159. Exemptions

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

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

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

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

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

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

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

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

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

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

31           10. Tangible personal property not exceeding two hundred dollars in  
32 any one month purchased by an individual at retail outside the continental

1 limits of the United States for the individual's own personal use and  
2 enjoyment.

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

7 12. Materials that are purchased by or for publicly funded libraries  
8 including school district libraries, charter school libraries, community  
9 college libraries, state university libraries or federal, state, county or  
10 municipal libraries for use by the public as follows:

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

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

13 13. Tangible personal property purchased by:

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

17 (b) A hospital operated by this state or a political subdivision of  
18 this state.

19 (c) A licensed nursing care institution or a licensed residential care  
20 institution or a residential care facility operated in conjunction with a  
21 licensed nursing care institution or a licensed kidney dialysis center, which  
22 provides medical services, nursing services or health related services and is  
23 not used or held for profit.

24 (d) A qualifying health care organization, as defined in section  
25 42-5001, if the tangible personal property is used by the organization solely  
26 to provide health and medical related educational and charitable services.

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

1 (f) A nonprofit charitable organization that has qualified under  
2 section 501(c)(3) of the United States internal revenue code and that engages  
3 in and uses such property exclusively in programs for persons with mental or  
4 physical disabilities if the programs are exclusively for training, job  
5 placement, rehabilitation or testing.

6 (g) A person that is subject to tax under this chapter by reason of  
7 being engaged in business classified under section 42-5075, or a  
8 subcontractor working under the control of a person that is engaged in  
9 business classified under section 42-5075, if the tangible personal property  
10 is any of the following:

11 (i) Incorporated or fabricated by the person into a structure,  
12 project, development or improvement in fulfillment of a contract.

13 (ii) Incorporated or fabricated by the person into any project  
14 described in section 42-5075, subsection 0.

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

17 (h) A person that is not subject to tax under section 42-5075 and that  
18 has been provided a copy of a certificate described in section 42-5009,  
19 subsection L, if the property purchased is incorporated or fabricated by the  
20 person into the real property, structure, project, development or improvement  
21 described in the certificate.

22 (i) A nonprofit charitable organization that has qualified under  
23 section 501(c)(3) of the internal revenue code if the property is purchased  
24 from the parent or an affiliate organization that is located outside this  
25 state.

26 (j) A qualifying community health center as defined in section  
27 42-5001.

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

31 (l) A person engaged in business under the transient lodging  
32 classification if the property is a personal hygiene item or articles used by

1 human beings for food, drink or condiment, except alcoholic beverages, which  
2 are furnished without additional charge to and intended to be consumed by the  
3 transient during the transient's occupancy.

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

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

14 (o) A person representing or working on behalf of any person described  
15 in subdivision (a), (b), (c), (d), (e), (f), (i), (j), (k), (m) or (n) of  
16 this paragraph, if the tangible personal property is incorporated or  
17 fabricated into a project described in section 42-5075, subsection 0.

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

23 15. Tangible personal property sold by:

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

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

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

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

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

13 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

9           27. Lottery tickets or shares purchased pursuant to title 5, chapter  
10 5.1, article 1.

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

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

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

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

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

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

1 (b) Public educational institutions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20           (b) "Curriculum design or enhancement" means planning, implementing or  
21 reporting on courses of study, lessons, assignments or other learning  
22 activities.

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

27           52. Repair parts installed in equipment used directly by a qualified  
28 business under section 41-1516 in harvesting, processing or transporting  
29 qualifying forest products removed from qualifying projects as defined in  
30 section 41-1516.

31           53. Renewable energy credits or any other unit created to track energy  
32 derived from renewable energy resources. For the purposes of this paragraph,

1 "renewable energy credit" means a unit created administratively by the  
2 corporation commission or governing body of a public power entity to track  
3 kilowatt hours of electricity derived from a renewable energy resource or the  
4 kilowatt hour equivalent of conventional energy resources displaced by  
5 distributed renewable energy resources.

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

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

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

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

26 56. Tangible personal property incorporated or fabricated into a  
27 project described in section 42-5075, subsection 0, that is located within  
28 the exterior boundaries of an Indian reservation for which the owner, as  
29 defined in section 42-5075, of the project is an Indian tribe or an  
30 affiliated Indian. For the purposes of this paragraph:

1           (a) "Affiliated Indian" means an individual native American Indian who  
2 is duly registered on the tribal rolls of the Indian tribe for whose benefit  
3 the Indian reservation was established.

4           (b) "Indian reservation" means all lands that are within the limits of  
5 areas set aside by the United States for the exclusive use and occupancy of  
6 an Indian tribe by treaty, law or executive order and that are recognized as  
7 Indian reservations by the United States department of the interior.

8           (c) "Indian tribe" means any organized nation, tribe, band or  
9 community that is recognized as an Indian tribe by the United States  
10 department of the interior and includes any entity formed under the laws of  
11 the Indian tribe.

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

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

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

28           3. Tangible personal property sold to persons engaged in business  
29 classified under the telecommunications classification under section 42-5064,  
30 including a person representing or working on behalf of such a person in a  
31 manner described in section 42-5075, subsection 0, and consisting of central  
32 office switching equipment, switchboards, private branch exchange equipment,

1 microwave radio equipment and carrier equipment including optical fiber,  
2 coaxial cable and other transmission media that are components of carrier  
3 systems.

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

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

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

15 7. Aircraft, navigational and communication instruments and other  
16 accessories and related equipment sold to:

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

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

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

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

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

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

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

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

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

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

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

1 social sciences or psychology, computer software research that is not  
2 included in the definition of research and development, or other  
3 nontechnological activities or technical services.

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

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

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

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

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

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

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

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

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

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

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

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

28 20. Machinery or equipment that enables a television station to  
29 originate and broadcast or to receive and broadcast digital television  
30 signals and that was purchased to facilitate compliance with the  
31 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States  
32 Code section 336) and the federal communications commission order issued

1 April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does  
2 not exempt any of the following:

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

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

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

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

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

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

22 2. Janitorial equipment and hand tools.

23 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

31           G. The tax levied by this article does not apply to the purchase price  
32 of electricity or natural gas by:

1           1. A ~~business that is principally engaged in~~ QUALIFIED manufacturing  
2 or smelting ~~operations and that uses at least fifty-one percent of the~~  
3 ~~electricity or natural gas in the manufacturing or smelting~~  
4 ~~operations~~ BUSINESS. A UTILITY THAT CLAIMS THIS DEDUCTION SHALL REPORT EACH  
5 MONTH, ON A FORM PRESCRIBED BY THE DEPARTMENT, THE NAME AND ADDRESS OF EACH  
6 QUALIFIED MANUFACTURING OR SMELTING BUSINESS FOR WHICH THIS DEDUCTION IS  
7 TAKEN. This paragraph does not apply to gas transportation services. For  
8 the purposes of this paragraph:

9           (a) "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           (b) "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, PUBLISHING, PACKAGING, mining, generating electricity or operating  
19 a restaurant.

20           ~~(c) "Principally engaged" means at least fifty-one percent of the~~  
21 ~~business is a manufacturing or smelting operation.~~

22           (c) "QUALIFIED MANUFACTURING OR SMELTING BUSINESS" MEANS ONE OF THE  
23 FOLLOWING:

24           (i) A BUSINESS THAT MANUFACTURES OR SMELTS TANGIBLE PRODUCTS IN THIS  
25 STATE, OF WHICH AT LEAST FIFTY-ONE PERCENT OF THE MANUFACTURED OR SMELTED  
26 PRODUCTS WILL BE EXPORTED OUT-OF-STATE FOR INCORPORATION INTO ANOTHER PRODUCT  
27 OR SOLD OUT-OF-STATE FOR A FINAL SALE.

28           (ii) A BUSINESS THAT DERIVES AT LEAST FIFTY-ONE PERCENT OF ITS GROSS  
29 INCOME FROM THE SALE OF MANUFACTURED OR SMELTED PRODUCTS MANUFACTURED OR  
30 SMELTED BY THE BUSINESS.

1 (iii) A BUSINESS THAT USES AT LEAST FIFTY-ONE PERCENT OF ITS SQUARE  
2 FOOTAGE IN THIS STATE FOR MANUFACTURING OR SMELTING AND BUSINESS ACTIVITIES  
3 DIRECTLY RELATED TO MANUFACTURING OR SMELTING.

4 (iv) A BUSINESS THAT EMPLOYS AT LEAST FIFTY-ONE PERCENT OF ITS  
5 WORKFORCE IN THIS STATE IN MANUFACTURING OR SMELTING AND BUSINESS ACTIVITIES  
6 DIRECTLY RELATED TO MANUFACTURING OR SMELTING.

7 (v) A BUSINESS THAT USES AT LEAST FIFTY-ONE PERCENT OF THE VALUE OF  
8 ITS CAPITALIZED ASSETS IN THIS STATE, AS REFLECTED ON THE BUSINESS'S BOOKS  
9 AND RECORDS, FOR MANUFACTURING OR SMELTING AND BUSINESS ACTIVITIES DIRECTLY  
10 RELATED TO MANUFACTURING OR SMELTING.

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

13 2. A business that operates an international operations center in this  
14 state and that is certified by the Arizona commerce authority pursuant to  
15 section 41-1520.

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

17 1. "Aircraft" includes:

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

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

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

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

31 Sec. 4. Section 42-6012, Arizona Revised Statutes, is amended to read:

1           42-6012. Municipal transaction privilege tax; sales of electricity or  
2           natural gas

3           A city or town that levies a transaction privilege, sales, gross  
4           receipts, use, franchise or other similar fee or tax, however denominated, on  
5           the business of producing, providing or furnishing electricity, electric  
6           lights, current, power or natural gas shall either tax or exempt in whole the  
7           gross proceeds of sales or gross income from sales by those businesses to  
8           either of the following businesses:

9           1. ~~Businesses that use at least fifty-one percent of the electricity,~~  
10          ~~electric lights, current, power or natural gas in~~ A QUALIFIED manufacturing  
11          or smelting ~~operation~~ BUSINESS located in that city or town. A UTILITY THAT  
12          CLAIMS THIS DEDUCTION SHALL REPORT EACH MONTH, ON A FORM PRESCRIBED BY THE  
13          DEPARTMENT, THE NAME AND ADDRESS OF EACH QUALIFIED MANUFACTURING OR SMELTING  
14          BUSINESS FOR WHICH THIS DEDUCTION IS TAKEN. This paragraph does not apply to  
15          gas transportation services. For the purposes of this paragraph:

16          (a) "Gas transportation services" means the services of transporting  
17          natural gas to a natural gas customer or to a natural gas distribution  
18          facility if the natural gas was purchased from a supplier other than the  
19          utility.

20          (b) "Manufacturing" means the performance as a business of an  
21          integrated series of operations that places tangible personal property in a  
22          form, composition or character different from that in which it was acquired  
23          and transforms it into a different product with a distinctive name, character  
24          or use. Manufacturing does not include processing, fabricating, job  
25          printing, mining, generating electricity or operating a restaurant.

26          (c) "QUALIFIED MANUFACTURING OR SMELTING BUSINESS" MEANS ONE OF THE  
27          FOLLOWING:

28          (i) A BUSINESS THAT MANUFACTURES OR SMELTS TANGIBLE PRODUCTS IN THIS  
29          STATE, OF WHICH AT LEAST FIFTY-ONE PERCENT OF THE MANUFACTURED OR SMELTED  
30          PRODUCTS WILL BE EXPORTED OUT-OF-STATE FOR INCORPORATION INTO ANOTHER PRODUCT  
31          OR SOLD OUT-OF-STATE FOR A FINAL SALE.

1 (ii) A BUSINESS THAT DERIVES AT LEAST FIFTY-ONE PERCENT OF ITS GROSS  
2 INCOME FROM THE SALE OF MANUFACTURED OR SMELTED PRODUCTS MANUFACTURED OR  
3 SMELTED BY THE BUSINESS.

4 (iii) A BUSINESS THAT USES AT LEAST FIFTY-ONE PERCENT OF ITS SQUARE  
5 FOOTAGE IN THIS STATE FOR MANUFACTURING OR SMELTING AND BUSINESS ACTIVITIES  
6 DIRECTLY RELATED TO MANUFACTURING OR SMELTING.

7 (iv) A BUSINESS THAT EMPLOYS AT LEAST FIFTY-ONE PERCENT OF ITS  
8 WORKFORCE IN THIS STATE IN MANUFACTURING OR SMELTING AND BUSINESS ACTIVITIES  
9 DIRECTLY RELATED TO MANUFACTURING OR SMELTING.

10 (v) A BUSINESS THAT USES AT LEAST FIFTY-ONE PERCENT OF THE VALUE OF  
11 ITS CAPITALIZED ASSETS IN THIS STATE, AS REFLECTED ON THE BUSINESS'S BOOKS  
12 AND RECORDS, FOR MANUFACTURING OR SMELTING AND BUSINESS ACTIVITIES DIRECTLY  
13 RELATED TO MANUFACTURING OR SMELTING.

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

16 2. Businesses that operate an international operations center in this  
17 state and that are certified by the Arizona commerce authority pursuant to  
18 section 41-1520."

19 Amend title to conform

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03/14/2016  
04:35 PM  
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