

REFERENCE TITLE: tax exemptions and deductions; sunset

State of Arizona
Senate
Fifty-second Legislature
Second Regular Session
2016

SB 1178

Introduced by
Senators Farley, Dalessandro, Hobbs, Sherwood: Bradley, Contreras,
Pancrazi

AN ACT

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 SECTION 42-5159, ARIZONA REVISED STATUTES; RELATING TO TAX EXEMPTIONS AND DEDUCTIONS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5061, Arizona Revised Statutes, is amended to
3 read:

4 42-5061. Retail classification; definitions

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

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

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

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

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

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

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

27 7. The sale of stocks and bonds.

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

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

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

35 11. Prescription eyeglasses or contact lenses.

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

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

1 14. Sales of motor vehicles to nonresidents of this state for use
2 outside this state if the motor vehicle dealer ships or delivers the motor
3 vehicle to a destination out of this state.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

20 25. Tangible personal property sold to:

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

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

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

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

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

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

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

1 (h) Any person representing or working on behalf of another person
2 described in subdivisions (a) through (g) of this paragraph if the tangible
3 personal property is incorporated or fabricated into a project described in
4 section 42-5075, subsection 0.

5 26. Magazines or other periodicals or other publications by this state
6 to encourage tourist travel.

7 27. Tangible personal property sold to:

8 (a) A person that is subject to tax under this article by reason of
9 being engaged in business classified under section 42-5075 or to a
10 subcontractor working under the control of a person engaged in business
11 classified under section 42-5075, if the property so sold is any of the
12 following:

13 (i) Incorporated or fabricated by the person into any real property,
14 structure, project, development or improvement as part of the business.

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

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

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

24 28. The sale of a motor vehicle to:

25 (a) A nonresident of this state if the purchaser's state of residence
26 does not allow a corresponding use tax exemption to the tax imposed by
27 article 1 of this chapter and if the nonresident has secured a special ninety
28 day nonresident registration permit for the vehicle as prescribed by sections
29 28-2154 and 28-2154.01.

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

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

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

44 31. Sales of commodities, as defined by title 7 United States Code
45 section 2, that are consigned for resale in a warehouse in this state in or

1 from which the commodity is deliverable on a contract for future delivery
2 subject to the rules of a commodity market regulated by the United States
3 commodity futures trading commission.

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

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

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

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

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

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

35 38. Sales of liquid, solid or gaseous chemicals used in manufacturing,
36 processing, fabricating, mining, refining, metallurgical operations, research
37 and development and, beginning on January 1, 1999, printing, if using or
38 consuming the chemicals, alone or as part of an integrated system of
39 chemicals, involves direct contact with the materials from which the product
40 is produced for the purpose of causing or permitting a chemical or physical
41 change to occur in the materials as part of the production process. This
42 paragraph does not include chemicals that are used or consumed in activities
43 such as packaging, storage or transportation but does not affect any
44 deduction for such chemicals that is otherwise provided by this section. For
45 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. Application services that are designed to assess or test student
35 learning or to promote curriculum design or enhancement purchased by or for
36 any school district, charter school, community college or state university.
37 For the purposes of this paragraph:

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

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

43 54. Sales of motor vehicle fuel and use fuel to a qualified business
44 under section 41-1516 for off-road use in harvesting, processing or

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

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

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

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

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

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

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

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

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

44 B. In addition to the deductions from the tax base prescribed by
45 subsection A of this section, the gross proceeds of sales or gross income

1 derived from sales of the following categories of tangible personal property
2 shall be deducted from the tax base:

3 1. Machinery, or equipment, used directly in manufacturing,
4 processing, fabricating, job printing, refining or metallurgical operations.
5 The terms "manufacturing", "processing", "fabricating", "job printing",
6 "refining" and "metallurgical" as used in this paragraph refer to and include
7 those operations commonly understood within their ordinary meaning.
8 "Metallurgical operations" includes leaching, milling, precipitating,
9 smelting and refining.

10 2. Mining machinery, or equipment, used directly in the process of
11 extracting ores or minerals from the earth for commercial purposes, including
12 equipment required to prepare the materials for extraction and handling,
13 loading or transporting such extracted material to the surface. "Mining"
14 includes underground, surface and open pit operations for extracting ores and
15 minerals.

16 3. Tangible personal property sold to persons engaged in business
17 classified under the telecommunications classification, including a person
18 representing or working on behalf of such a person in a manner described in
19 section 42-5075, subsection 0, and consisting of central office switching
20 equipment, switchboards, private branch exchange equipment, microwave radio
21 equipment and carrier equipment including optical fiber, coaxial cable and
22 other transmission media that are components of carrier systems.

23 4. Machinery, equipment or transmission lines used directly in
24 producing or transmitting electrical power, but not including distribution.
25 Transformers and control equipment used at transmission substation sites
26 constitute equipment used in producing or transmitting electrical power.

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

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

34 7. Aircraft, navigational and communication instruments and other
35 accessories and related equipment sold to:

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

42 (b) Any foreign government.

43 (c) Persons who are not residents of this state and who will not use
44 such property in this state other than in removing such property from this
45 state. This subdivision also applies to corporations that are not

1 incorporated in this state, regardless of maintaining a place of business in
2 this state, if the principal corporate office is located outside this state
3 and the property will not be used in this state other than in removing the
4 property from this state.

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

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

11 10. Machinery or equipment used directly to drill for oil or gas or
12 used directly in the process of extracting oil or gas from the earth for
13 commercial purposes.

14 11. Buses or other urban mass transit vehicles that are used directly
15 to transport persons or property for hire or pursuant to a governmentally
16 adopted and controlled urban mass transportation program and that are sold to
17 bus companies holding a federal certificate of convenience and necessity or
18 operated by any city, town or other governmental entity or by any person
19 contracting with such governmental entity as part of a governmentally adopted
20 and controlled program to provide urban mass transportation.

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

22 13. New machinery and equipment consisting of tractors, tractor-drawn
23 implements, self-powered implements, machinery and equipment necessary for
24 extracting milk, and machinery and equipment necessary for cooling milk and
25 livestock, and drip irrigation lines not already exempt under paragraph 6 of
26 this subsection and that are used for commercial production of agricultural,
27 horticultural, viticultural and floricultural crops and products in this
28 state. For the purposes of this paragraph:

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

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

34 14. Machinery or equipment used in research and development. For the
35 purposes of this paragraph, "research and development" means basic and
36 applied research in the sciences and engineering, and designing, developing
37 or testing prototypes, processes or new products, including research and
38 development of computer software that is embedded in or an integral part of
39 the prototype or new product or that is required for machinery or equipment
40 otherwise exempt under this section to function effectively. Research and
41 development do not include manufacturing quality control, routine consumer
42 product testing, market research, sales promotion, sales service, research in
43 social sciences or psychology, computer software research that is not
44 included in the definition of research and development, or other
45 nontechnological activities or technical services.

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

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

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

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

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

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

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

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

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

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

42 18. Machinery or equipment, including related structural components,
43 that is employed in connection with manufacturing, processing, fabricating,
44 job printing, refining, mining, natural gas pipelines, metallurgical
45 operations, telecommunications, producing or transmitting electricity or

1 research and development and that is used directly to meet or exceed rules or
2 regulations adopted by the federal energy regulatory commission, the United
3 States environmental protection agency, the United States nuclear regulatory
4 commission, the Arizona department of environmental quality or a political
5 subdivision of this state to prevent, monitor, control or reduce land, water
6 or air pollution.

7 19. Machinery and equipment that are sold to a person engaged in the
8 commercial production of livestock, livestock products or agricultural,
9 horticultural, viticultural or floricultural crops or products in this state,
10 including a person representing or working on behalf of such a person in a
11 manner described in section 42-5075, subsection 0, if the machinery and
12 equipment are used directly and primarily to prevent, monitor, control or
13 reduce air, water or land pollution.

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

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

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

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

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

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

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

40 2. Janitorial equipment and hand tools.

41 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

18 E. In computing the tax base, gross proceeds of sales or gross income
19 from retail sales of heavy trucks and trailers does not include any amount
20 attributable to federal excise taxes imposed by 26 United States Code section
21 4051.

22 F. If a person is engaged in an occupation or business to which
23 subsection A of this section applies, the person's books shall be kept so as
24 to show separately the gross proceeds of sales of tangible personal property
25 and the gross income from sales of services, and if not so kept the tax shall
26 be imposed on the total of the person's gross proceeds of sales of tangible
27 personal property and gross income from services.

28 G. If a person is engaged in the business of selling tangible personal
29 property at both wholesale and retail, the tax under this section applies
30 only to the gross proceeds of the sales made other than at wholesale if the
31 person's books are kept so as to show separately the gross proceeds of sales
32 of each class, and if the books are not so kept, the tax under this section
33 applies to the gross proceeds of every sale so made.

34 H. A person who engages in manufacturing, baling, crating, boxing,
35 barreling, canning, bottling, sacking, preserving, processing or otherwise
36 preparing for sale or commercial use any livestock, agricultural or
37 horticultural product or any other product, article, substance or commodity
38 and who sells the product of such business at retail in this state is deemed,
39 as to such sales, to be engaged in business classified under the retail
40 classification. This subsection does not apply to businesses classified
41 under the:

- 42 1. Transporting classification.
- 43 2. Utilities classification.
- 44 3. Telecommunications classification.
- 45 4. Pipeline classification.

1 5. Private car line classification.

2 6. Publication classification.

3 7. Job printing classification.

4 8. Prime contracting classification.

5 9. Restaurant classification.

6 I. The gross proceeds of sales or gross income derived from the
7 following shall be deducted from the tax base for the retail classification:

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

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

14 3. Overhead materials or other tangible personal property that is used
15 in performing a contract between the United States government and a
16 manufacturer, modifier, assembler or repairer, including property used in
17 performing a subcontract with a government contractor who is a manufacturer,
18 modifier, assembler or repairer, to which title passes to the government
19 under the terms of the contract or subcontract.

20 4. Sales of overhead materials or other tangible personal property to
21 a manufacturer, modifier, assembler or repairer if the gross proceeds of
22 sales or gross income derived from the property by the manufacturer,
23 modifier, assembler or repairer will be exempt under paragraph 3 of this
24 subsection.

25 J. There shall be deducted from the tax base fifty percent of the
26 gross proceeds or gross income from any sale of tangible personal property
27 made directly to the United States government or its departments or agencies
28 that is not deducted under subsection I of this section.

29 K. The department shall require every person claiming a deduction
30 provided by subsection I or J of this section to file on forms prescribed by
31 the department at such times as the department directs a sworn statement
32 disclosing the name of the purchaser and the exact amount of sales on which
33 the exclusion or deduction is claimed.

34 L. In computing the tax base, gross proceeds of sales or gross income
35 does not include:

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

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

39 M. There shall be deducted from the tax base the amount received from
40 sales of solar energy devices. The retailer shall register with the
41 department as a solar energy retailer. By registering, the retailer
42 acknowledges that it will make its books and records relating to sales of
43 solar energy devices available to the department for examination.

44 N. In computing the tax base in the case of the sale or transfer of
45 wireless telecommunications equipment as an inducement to a customer to enter

1 into or continue a contract for telecommunications services that are taxable
2 under section 42-5064, gross proceeds of sales or gross income does not
3 include any sales commissions or other compensation received by the retailer
4 as a result of the customer entering into or continuing a contract for the
5 telecommunications services.

6 O. For the purposes of this section, a sale of wireless
7 telecommunications equipment to a person who holds the equipment for sale or
8 transfer to a customer as an inducement to enter into or continue a contract
9 for telecommunications services that are taxable under section 42-5064 is
10 considered to be a sale for resale in the regular course of business.

11 P. Retail sales of prepaid calling cards or prepaid authorization
12 numbers for telecommunications services, including sales of reauthorization
13 of a prepaid card or authorization number, are subject to tax under this
14 section.

15 Q. For the purposes of this section, the diversion of gas from a
16 pipeline by a person engaged in the business of:

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

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

23 R. For the purposes of this section, the transfer of title or
24 possession of coal from an owner or operator of a power plant to a person in
25 the business of refining coal is not a sale of coal if both of the following
26 apply:

27 1. The transfer of title or possession of the coal is for the purpose
28 of refining the coal.

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

35 S. If a seller is entitled to a deduction pursuant to subsection B,
36 paragraph 15, subdivision (b) of this section, the department may require the
37 purchaser to establish that the requirements of subsection B, paragraph 15,
38 subdivision (b) of this section have been satisfied. If the purchaser cannot
39 establish that the requirements of subsection B, paragraph 15, subdivision
40 (b) of this section have been satisfied, the purchaser is liable in an amount
41 equal to any tax, penalty and interest ~~which~~ THAT the seller would have been
42 required to pay under article 1 of this chapter if the seller had not made a
43 deduction pursuant to subsection B, paragraph 15, subdivision (b) of this
44 section. Payment of the amount under this subsection exempts the purchaser
45 from liability for any tax imposed under article 4 of this chapter and

1 related to the tangible personal property purchased. The amount shall be
2 treated as transaction privilege tax to the purchaser and as tax revenues
3 collected from the seller to designate the distribution base pursuant to
4 section 42-5029.

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

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

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

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

25 V. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE TANGIBLE
26 PERSONAL PROPERTY IN THE FOLLOWING CATEGORIES IS NOT EXEMPT OR DEDUCTIBLE
27 FROM THE TAX BASE FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31,
28 2026:

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

33 2. SUBSECTION B, PARAGRAPHS 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 13,
34 14, 15, 16, 17, 18, 19 AND 20 OF THIS SECTION.

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

36 1. "Aircraft" includes:

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

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

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

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

6 ~~W.~~ X. For the purposes of subsection I of this section:

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

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

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

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

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

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

34 Sec. 2. Section 42-5062, Arizona Revised Statutes, is amended to read:

35 42-5062. Transporting classification

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

40 1. Transporting for hire persons, freight or property by:

41 (a) Motor carriers subject to a fee prescribed in title 28, chapter
42 16, article 4. ~~or by~~

43 (b) Light motor vehicles subject to a fee under title 28, chapter 15,
44 article 4. ~~,~~

1 (c) Transportation network companies subject to a fee prescribed ~~by~~
2 PURSUANT TO section 28-9552. ~~or~~

3 (d) Transportation network company drivers on transactions involving
4 transportation network services as defined in section 28-9551.

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

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

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

13 5. Transporting freight or property for hire by a railroad operating
14 exclusively in this state if the transportation comprises a portion of a
15 single shipment of freight or property, involving more than one railroad,
16 either from a point in this state to a point outside this state or from a
17 point outside this state to a point in this state. For the purposes of this
18 paragraph, "a single shipment" means the transportation that begins at the
19 point at which one of the railroads first takes possession of the freight or
20 property and continues until the point at which one of the railroads
21 relinquishes possession of the freight or property to a party other than one
22 of the railroads.

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

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

35 1. The gross proceeds of sales or gross income derived from
36 transporting for hire persons, freight or property by a railroad pursuant to
37 a contract with another railroad that is also considered to be engaged in the
38 businesses of transporting persons, freight or property for hire if the other
39 railroad is liable for the tax on gross proceeds of sales or gross income
40 attributable to the transportation.

41 2. The gross proceeds of sales or gross income derived from business
42 activity that is properly included in any other business classification under
43 this article and that is taxable to the person engaged in that
44 classification, but the gross proceeds of sales or gross income to be

1 deducted shall not exceed the consideration paid to the person conducting the
2 activity.

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

9 4. The gross proceeds of sales or gross income derived from business
10 activity that is arranged by a person who is subject to tax under this
11 section and that is taxable to another person under this section who conducts
12 the activity, but the gross proceeds of sales or gross income to be deducted
13 shall not exceed the consideration paid to the person conducting the
14 activity.

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

18 C. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE ACTIVITIES
19 IN THE FOLLOWING CATEGORIES ARE NOT EXEMPT OR DEDUCTIBLE FROM THE TAX BASE
20 FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2026:

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

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

23 Sec. 3. Section 42-5063, Arizona Revised Statutes, is amended to read:
24 42-5063. Utilities classification; definitions

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

26 1. Producing and furnishing or furnishing to consumers natural or
27 artificial gas and water.

28 2. Providing to retail electric customers ancillary services, electric
29 distribution services, electric generation services, electric transmission
30 services and other services related to providing electricity.

31 B. The utilities classification does not include:

32 1. Sales of ancillary services, electric distribution services,
33 electric generation services, electric transmission services and other
34 services related to providing electricity, gas or water to a person who
35 resells the services.

36 2. Sales of natural gas or liquefied petroleum gas used to propel a
37 motor vehicle.

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

41 4. Sales of ancillary services, electric distribution services,
42 electric generation services, electric transmission services and other
43 services that are related to providing electricity to a retail electric
44 customer who is located outside this state for use outside this state if the
45 electricity is delivered to a point of sale outside this state.

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

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

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

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

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

16 1. Revenues received by a municipally owned utility in the form of
17 fees charged to persons constructing residential, commercial or industrial
18 developments or connecting residential, commercial or industrial developments
19 to a municipal utility system or systems if the fees are segregated and used
20 only for capital expansion, system enlargement or debt service of the utility
21 system or systems.

22 2. Revenues received by any person or persons owning a utility system
23 in the form of reimbursement or contribution compensation for property and
24 equipment installed to provide utility access to, on or across the land of an
25 actual utility consumer if the property and equipment become the property of
26 the utility. This deduction shall not exceed the value of such property and
27 equipment.

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

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

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

33 4. The portion of gross proceeds of sales or gross income that is
34 derived from sales to a qualified environmental technology manufacturer,
35 producer or processor as defined in section 41-1514.02 of a utility product
36 and that is used directly in environmental technology manufacturing,
37 producing or processing. This paragraph shall apply for twenty full
38 consecutive calendar or fiscal years from the date the first paper
39 manufacturing machine is placed in service. In the case of a qualified
40 environmental technology manufacturer, producer or processor who does not
41 manufacture paper, the time period shall begin with the date the first
42 manufacturing, processing or production equipment is placed in service.

43 5. The portion of gross proceeds of sales or gross income attributable
44 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 in
5 manufacturing or smelting operations and that uses at least fifty-one percent
6 of the electricity or natural gas in the manufacturing or smelting
7 operations. This paragraph does not apply to gas transportation
8 services. For 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, mining, generating electricity or operating a restaurant.

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

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

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

27 D. NOTWITHSTANDING SUBSECTIONS B AND C OF THIS SECTION, THE ACTIVITIES
28 IN THE FOLLOWING CATEGORIES ARE NOT EXEMPT OR DEDUCTIBLE FROM THE TAX BASE
29 FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2026:

- 30 1. SUBSECTION B, PARAGRAPHS 1, 3 AND 4 OF THIS SECTION.
- 31 2. SUBSECTION C, PARAGRAPHS 1, 2, 3, 4, 5 AND 6 OF THIS SECTION.

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

33 1. "Ancillary services" means those services so designated in federal
34 energy regulatory commission order 888 adopted in 1996 that include the
35 services necessary to support the transmission of electricity from resources
36 to loads while maintaining reliable operation of the transmission system
37 according to good utility practice.

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

39 3. "Electric distribution service" means distributing electricity to
40 retail electric customers through the use of electric distribution
41 facilities.

42 4. "Electric generation service" means providing electricity for sale
43 to retail electric customers but excluding electric distribution or
44 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. 4. Section 42-5064, Arizona Revised Statutes, is amended to read:

14 42-5064. Telecommunications classification; definitions

15 A. The telecommunications classification is comprised of the business
16 of providing intrastate telecommunications services. The telecommunications
17 classification does not include:

18 1. Sales of intrastate telecommunications services by a cable operator
19 or by a microwave television transmission system that transmits television
20 programming to multiple subscribers and that is operated pursuant to 47 Code
21 of Federal Regulations parts 21 and 74.

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

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

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

32 3. The leasing or renting of space to make attachments to utility
33 poles as follows:

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

35 (b) To a person that is engaged in business under section 42-5063 or
36 this section or that is a cable operator.

37 B. The tax base for the telecommunications classification is the gross
38 proceeds of sales or gross income derived from the business, including the
39 gross income derived from tolls, subscriptions and services on behalf of
40 subscribers or from the publication of a directory of the names of
41 subscribers. However, the gross proceeds of sales or gross income derived
42 from the following shall be deducted from the tax base:

43 1. Sales of intrastate telecommunications services to:

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

1 (b) A direct broadcast satellite television or data transmission
2 service that operates pursuant to 47 Code of Federal Regulations part 25 for
3 use in its direct broadcast satellite television or data transmission
4 operation by a facility described in section 42-5061, subsection B, paragraph
5 15, subdivision (b).

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

8 3. Carrier access charges established by federal communications
9 commission regulations (47 Code of Federal Regulations sections 69.105(a)
10 through 69.118).

11 4. Sales of direct broadcast satellite television services pursuant to
12 47 Code of Federal Regulations part 25 by a direct broadcast satellite
13 television service that operates pursuant to 47 Code of Federal Regulations
14 part 25.

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

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

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

27 1. A telecommunications service provider who can reasonably identify
28 the portion of the sales price of the bundled transaction derived from
29 charges for nontaxable services is subject to tax only on the gross proceeds
30 of sales or gross income derived from the taxable services. For the purposes
31 of this section, the telecommunications service provider may elect to
32 reasonably identify the portion of the sales price of the bundled transaction
33 derived from charges for nontaxable services by using allocation percentages
34 derived from the telecommunications service provider's entire service area,
35 including territories outside of this state. On request, the department may
36 require the telecommunications service provider to provide this allocation
37 information. The reasonableness of the allocation is subject to audit by the
38 department.

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

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

4 E. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE ACTIVITIES
5 IN THE FOLLOWING CATEGORIES ARE NOT EXEMPT OR DEDUCTIBLE FROM THE TAX BASE
6 FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2026:

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

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

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

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

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

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

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

17 3. "Internet" means the computer and telecommunications facilities
18 that comprise the interconnected worldwide network of networks that employ
19 the transmission control protocol or internet protocol, or any predecessor or
20 successor protocol, to communicate information of all kinds by wire or radio.

21 4. "Internet access" means a service that enables users to access
22 content, information, electronic mail or other services over the internet.
23 Internet access does not include telecommunications services provided by a
24 common carrier.

25 5. "Intrastate telecommunications services" means transmitting signs,
26 signals, writings, images, sounds, messages, data or other information of any
27 nature by wire, radio waves, light waves or other electromagnetic means if
28 the information transmitted originates and terminates in this state.

29 6. "Utility pole" means any wooden, metal or other pole used for
30 utility purposes and the pole's appurtenances that are attached or authorized
31 for attachment by the person controlling the pole.

32 Sec. 5. Section 42-5065, Arizona Revised Statutes, is amended to read:

33 42-5065. Publication classification; definition

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

37 1. Manufacturing or publishing books.

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

40 B. The tax base for the publication classification is the gross
41 proceeds of sales or gross income derived from the business, including the
42 gross income derived from notices and subscription income, but the following
43 shall be deducted from the tax base:

44 1. Gross income derived from advertising.

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

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

4 (b) A qualifying health care organization as defined in section
5 42-5001 if the tangible personal property is used by the organization solely
6 to provide health and medical related educational and charitable services.

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

9 C. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE ACTIVITIES
10 IN THE FOLLOWING CATEGORIES ARE NOT EXEMPT OR DEDUCTIBLE FROM THE TAX BASE
11 FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2026:

12 1. SUBSECTION A, PARAGRAPH 1 OF THIS SECTION.

13 2. SUBSECTION B, PARAGRAPH 1 OF THIS SECTION.

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

19 Sec. 6. Section 42-5066, Arizona Revised Statutes, is amended to read:

20 42-5066. Job printing classification

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

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

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

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

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

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

36 3. Sales of personal property to:

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

38 (b) A qualifying health care organization as defined in section
39 42-5001 if the tangible personal property is used by the organization solely
40 to provide health and medical related educational and charitable services.

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

43 4. Sales of postage and freight except that the amount deducted shall
44 not exceed the actual postage and freight expense that is paid to the United
45 States postal service or a commercial delivery service and that is separately

1 itemized by the taxpayer on the customer's invoice and in the taxpayer's
2 records.

3 C. NOTWITHSTANDING SUBSECTION B OF THIS SECTION, THE ACTIVITIES
4 DESCRIBED IN SUBSECTION B, PARAGRAPHS 1, 2 AND 4 OF THIS SECTION ARE NOT
5 DEDUCTIBLE FROM THE TAX BASE FOR TAXABLE PERIODS BEGINNING FROM AND AFTER
6 DECEMBER 31, 2026.

7 Sec. 7. Section 42-5070, Arizona Revised Statutes, is amended to read:
8 42-5070. Transient lodging classification; definition

9 A. The transient lodging classification is comprised of the business
10 of operating, for occupancy by transients, a hotel or motel, including an
11 inn, tourist home or house, dude ranch, resort, campground, studio or
12 bachelor hotel, lodging house, rooming house, apartment house, dormitory,
13 public or private club, mobile home or house trailer at a fixed location or
14 other similar structure, and also including a space, lot or slab that is
15 occupied or intended or designed for occupancy by transients in a mobile home
16 or house trailer furnished by them for such occupancy.

17 B. The transient lodging classification does not include:

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

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

29 3. Leasing or renting four or fewer rooms of an owner-occupied
30 residential home, together with furnishing no more than a breakfast meal, to
31 transient lodgers at no more than a fifty ~~per-cent~~ PERCENT average annual
32 occupancy rate. THIS EXEMPTION EXPIRES FROM AND AFTER DECEMBER 31, 2026.

33 C. The tax base for the transient lodging classification is the gross
34 proceeds of sales or gross income derived from the business, except that the
35 tax base does not include gross proceeds of sales or gross income derived
36 from business activity that is properly included in another business
37 classification under this article and that is taxable to the person engaged
38 in that business classification, but the gross proceeds of sales or gross
39 income to be deducted shall not exceed the consideration paid to the person
40 conducting the activity.

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

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

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

7 3. Commissions paid to a person that is engaged in transient lodging
8 business subject to taxation under this section by a person providing
9 services or property to the customers of the person engaging in the transient
10 lodging business.

11 E. The department shall separately account for revenues collected
12 under the transient lodging classification for the purposes of section
13 42-5029, subsection D, paragraph 4, subdivision (b).

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

18 Sec. 8. Section 42-5071, Arizona Revised Statutes, is amended to read:
19 42-5071. Personal property rental classification; definitions

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

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

26 2. Activities engaged in by the Arizona exposition and state fair
27 board or county fair commissions in connection with events sponsored by such
28 entities.

29 3. Leasing or renting tangible personal property by a parent
30 corporation to a subsidiary corporation or by a subsidiary corporation to
31 another subsidiary of the same parent corporation if taxes were paid under
32 this chapter on the gross proceeds or gross income accruing from the initial
33 sale of the tangible personal property. For the purposes of this paragraph,
34 "subsidiary" means a corporation of which at least eighty percent of the
35 voting shares are owned by the parent corporation.

36 4. Operating coin-operated washing, drying and dry cleaning machines
37 or coin-operated car washing machines at establishments for the use of such
38 machines.

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

44 6. Leasing or renting aircraft, flight simulators or similar training
45 equipment to students or staff by nonprofit, accredited educational

1 institutions that offer associate or baccalaureate degrees in aviation or
2 aerospace related fields.

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

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

10 9. The leasing or renting of space to make attachments to utility
11 poles, as follows:

12 (a) By a person that is engaged in business under section 42-5063 or
13 42-5064 or that is a cable operator.

14 (b) To a person that is engaged in business under section 42-5063 or
15 42-5064 or that is a cable operator.

16 B. The tax base for the personal property rental classification is the
17 gross proceeds of sales or gross income derived from the business, but the
18 gross proceeds of sales or gross income derived from the following shall be
19 deducted from the tax base:

20 1. Reimbursements by the lessee to the lessor of a motor vehicle for
21 payments by the lessor of the applicable fees and taxes imposed by sections
22 28-2003, 28-2352, 28-2402, 28-2481 and 28-5801, title 28, chapter 15,
23 article 2 and article IX, section 11, Constitution of Arizona, to the extent
24 such amounts are separately identified as such fees and taxes and are billed
25 to the lessee.

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

29 (a) Section 42-5061, subsection A, paragraph 8, 9, 12, 13, 25, 29, 49
30 or 53.

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

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

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

36 (c) Section 42-5061, subsection I, paragraph 1.

37 (d) Section 42-5061, subsection M.

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

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

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

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

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

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

19 F. **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, 2026:**

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

23 2. **SUBSECTION B, PARAGRAPH 5 OF THIS SECTION.**

24 ~~F.~~ **G.** For the purposes of this section:

25 1. "Cable operator" has the same meaning prescribed by section 9-505.

26 2. "Utility pole" means any wooden, metal or other pole used for
27 utility purposes and the pole's appurtenances that are attached or authorized
28 for attachment by the person controlling the pole.

29 Sec. 9. Section 42-5072, Arizona Revised Statutes, is amended to read:

30 42-5072. Mining classification; definition

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

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

41 C. The tax base includes the value of the entire product mined,
42 quarried or produced for sale, profit or commercial use in this state,
43 regardless of the place of sale of the product or of the fact that deliveries
44 may be made to points without this state. **THROUGH DECEMBER 31, 2026,**
45 ~~if, however,~~ the sale price of the product includes freight, the sale price

1 shall be reduced by the actual freight paid by any person from the place of
2 production to the place of delivery.

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

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

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

30 1. The transfer of title or possession of the coal is for the purpose
31 of refining the coal.

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

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

1 Sec. 10. 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~~ THIRD-PARTY independent contractors. For the purposes of this
30 paragraph, "arranging" includes billing for or collecting amusement charges
31 from a 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~~ THAT provide for the right to
37 use a health or fitness establishment or a private recreational
38 establishment, or any portion of an establishment, including tennis and other
39 racquet courts at that establishment, for participatory purposes for
40 twenty-eight days or more and fees charged for use of the health or fitness
41 establishment or private recreational establishment by bona fide accompanied
42 guests of members, except that this paragraph does not include additional
43 fees, other than initiation fees, charged by a health or fitness
44 establishment or a private recreational establishment for purposes other than
45 memberships which provide for the right to use a health or fitness

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

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

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

15 4. The gross proceeds of sales or gross income derived from sales to
16 persons engaged in the business of transient lodging classified under section
17 42-5070, if all of the following apply:

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

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

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

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

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

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

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

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

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

1 accounts of memberships and accompanied guest use fees which provide for the
2 right to use the facility, or any portion of the facility, under the terms of
3 the membership agreement for participatory purposes for twenty-eight days or
4 more.

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

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

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

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

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

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

42 1. Events that are held in a multipurpose facility that is owned or
43 operated by the tourism and sports authority pursuant to title 5, chapter 8,
44 including intercollegiate football contests that are operated by a nonprofit

1 organization that is exempt from taxation under section 501(c)(3) of the
2 internal revenue code.

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

6 H. NOTWITHSTANDING SUBSECTION A OF THIS SECTION, THE ACTIVITIES
7 DESCRIBED IN SUBSECTION A PARAGRAPHS 1, 2, 3, 4, 7, 8 AND 10 ARE NOT EXEMPT
8 FOR TAXABLE PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2026.

9 Sec. 11. Section 42-5074, Arizona Revised Statutes, is amended to
10 read:

11 42-5074. Restaurant classification

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

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

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

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

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

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

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

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

- 1 7. Sales to qualifying hospitals as defined in section 42-5001.
- 2 8. Sales to a qualifying health care organization as defined in
3 section 42-5001 if the tangible personal property is used by the organization
4 solely to provide health and medical related educational and charitable
5 services.
- 6 9. Sales of food, drink and condiment for consumption within the
7 premises of any prison, jail or other institution under the jurisdiction of
8 the state department of corrections, the department of public safety, the
9 department of juvenile corrections or a county sheriff.
- 10 10. Sales of articles of prepared or unprepared food, drink or
11 condiment and accessory tangible personal property to a school district or
12 charter school if the articles and accessory tangible personal property are
13 served to persons for consumption on the premises of a public school in the
14 school district or charter school during school hours.
- 15 11. Prepared food, drink or condiment donated by a restaurant to a
16 nonprofit charitable organization that has qualified under section 501(c)(3)
17 of the internal revenue code and that regularly serves meals to the needy and
18 indigent on a continuing basis at no cost.
- 19 12. Sales of articles of food and drink at low or reduced prices to
20 eligible elderly, ~~disabled~~ or homeless persons **OR PERSONS WITH A DISABILITY**
21 by a restaurant that contracts with the department of economic security and
22 that is approved by the food and nutrition services of the United States
23 department of agriculture pursuant to the supplemental nutrition assistance
24 program established by the food and nutrition act of 2008 (P.L. 110-246; 122
25 Stat. 1651; 7 United States Code sections 2011 through 2036a), if the
26 purchases of the articles of food and drink are made with the benefits issued
27 pursuant to the supplemental nutrition assistance program.
- 28 C. The tax imposed on the restaurant classification pursuant to this
29 section does not apply to the gross proceeds of sales or gross income from
30 tangible personal property sold to a commercial airline consisting of food,
31 beverages and condiments and accessories used for serving the food and
32 beverages, if those items are to be provided without additional charge to
33 passengers for consumption in flight. For the purposes of this subsection,
34 "commercial airline" means a person holding a federal certificate of public
35 convenience and necessity or foreign air carrier permit for air
36 transportation to transport persons, property or United States mail in
37 intrastate, interstate or foreign commerce.
- 38 D. The department shall separately account for revenues collected
39 under the restaurant classification for the purposes of section 42-5029,
40 subsection D, paragraph 4, subdivision (b).
- 41 E. For **THE** purposes of section 42-5032.01, the department shall
42 separately account for revenues collected under the restaurant classification
43 from businesses operating restaurants, dining rooms, lunchrooms, lunch
44 stands, 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, 2026.

11 Sec. 12. 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 the business of manufactured building dealer. Sales
17 for resale to another manufactured building dealer are not subject to
18 tax. Sales for resale do not include sales to a lessor of manufactured
19 buildings. The sale of a used manufactured building is not taxable under
20 this chapter.

21 B. THROUGH DECEMBER 31, 2026, the tax base for the prime contracting
22 classification is sixty-five percent of the gross proceeds of sales or gross
23 income derived from the business. FOR TAXABLE PERIODS BEGINNING FROM AND
24 AFTER DECEMBER 31, 2026, THE TAX BASE FOR THE PRIME CONTRACTING
25 CLASSIFICATION IS THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM
26 THE BUSINESS. The following amounts shall be deducted from the gross
27 proceeds of sales or gross income before computing the tax base:

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

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

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

39 4. The gross proceeds of sales or gross income received from a
40 contract entered into for the modification of any building, highway, road,
41 railroad, excavation, manufactured building or other structure, project,
42 development or improvement located in a military reuse zone for providing
43 aviation or aerospace services or for a manufacturer, assembler or fabricator
44 of aviation or aerospace products within an active military reuse zone after
45 the zone is initially established or renewed under section 41-1531. To be

1 eligible to qualify for this deduction, before beginning work under the
2 contract, the prime contractor must have applied for a letter of
3 qualification from the department of revenue.

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

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

23 (a) Actions to monitor, assess and evaluate such a release or a
24 suspected release.

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

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

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

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

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

42 7. The gross proceeds of sales or gross income that is derived from a
43 contract for the installation, assembly, repair or maintenance of machinery,
44 equipment or other tangible personal property that is either deducted from
45 the tax base of the retail classification under section 42-5061, subsection B

1 or that is exempt from use tax under section 42-5159, subsection B and that
2 has independent functional utility, pursuant to the following provisions:

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

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

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

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

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

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

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

29 (i) Assembling the machinery, equipment or other tangible personal
30 property.

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

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

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

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

43 (a) Section 42-5061, subsection A, paragraph 25, 29, 57 or 59.

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

1 (c) Section 42-5159, subsection A, paragraph 13, subdivision (a), (b),
2 (c), (d), (e), (f), (j), (k), (m) or (n) or paragraph 54 or 56.

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

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

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

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

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

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

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

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

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

43 17. The gross proceeds of sales or gross income received from
44 contracts entered into before July 1, 2006 for constructing a state
45 university research infrastructure project if the project has been reviewed

1 by the joint committee on capital review before the university enters into
2 the construction contract for the project. For the purposes of this
3 paragraph, "research infrastructure" has the same meaning prescribed in
4 section 15-1670.

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

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

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

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

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

30 20. The gross proceeds of sales or gross income derived from a
31 contract entered into for the construction of a mixed waste processing
32 facility that is located on a municipal solid waste landfill and that is
33 constructed for the purpose of recycling solid waste or producing renewable
34 energy from landfill waste. For the purposes of this paragraph:

35 (a) "Mixed waste processing facility" means a solid waste facility
36 that is owned, operated or used for the treatment, processing or disposal of
37 solid waste, recyclable solid waste, conditionally exempt small quantity
38 generator waste or household hazardous waste. For the purposes of
39 this subdivision, "conditionally exempt small quantity generator waste",
40 "household hazardous waste" and "solid waste facility" have the same meanings
41 prescribed in section 49-701, except that solid waste facility does include a
42 site that stores, treats or processes paper, glass, wood, cardboard,
43 household textiles, scrap metal, plastic, vegetative waste, aluminum, steel
44 or other recyclable material.

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

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

6 (d) "Renewable energy" has the same meaning prescribed in section
7 41-1511.

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

10 1. A prime contractor may establish entitlement to the deduction by
11 both:

12 (a) Marking the invoice for the transaction to indicate that the gross
13 proceeds of sales or gross income derived from the transaction was deducted
14 from the base.

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

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

26 3. The department may prescribe a form for the certificate described
27 in paragraph 1, subdivision (b) of this subsection. The department may also
28 adopt rules that describe the transactions with respect to which a person is
29 not entitled to rely solely on the information contained in the certificate
30 provided in paragraph 1, subdivision (b) of this subsection but must instead
31 obtain such additional information as required in order to be entitled to the
32 deduction.

33 4. If a prime contractor is entitled to a deduction by complying with
34 paragraph 1 of this subsection, the department may require the purchaser who
35 caused the execution of the certificate to establish the accuracy and
36 completeness of the information required to be contained in the certificate
37 that would entitle the prime contractor to the deduction. If the purchaser
38 cannot establish the accuracy and completeness of the information, the
39 purchaser is liable in an amount equal to any tax, penalty and interest that
40 the prime contractor would have been required to pay under article 1 of this
41 chapter if the prime contractor had not complied with paragraph 1 of this
42 subsection. Payment of the amount under this paragraph exempts the purchaser
43 from liability for any tax imposed under article 4 of this chapter. The
44 amount shall be treated as a transaction privilege tax to the purchaser and

1 as tax revenues collected from the prime contractor in order to designate the
2 distribution base for purposes of section 42-5029.

3 D. Subcontractors or others who perform modification activities are
4 not subject to tax if they can demonstrate that the job was within the
5 control of a prime contractor or contractors or a dealership of manufactured
6 buildings and that the prime contractor or dealership is liable for the tax
7 on the gross income, gross proceeds of sales or gross receipts attributable
8 to the job and from which the subcontractors or others were paid.

9 E. Amounts received by a contractor for a project are excluded from
10 the contractor's gross proceeds of sales or gross income derived from the
11 business if the person who hired the contractor executes and provides a
12 certificate to the contractor stating that the person providing the
13 certificate is a prime contractor and is liable for the tax under article 1
14 of this chapter. The department shall prescribe the form of the certificate.
15 If the contractor has reason to believe that the information contained on the
16 certificate is erroneous or incomplete, the department may disregard the
17 certificate. If the person who provides the certificate is not liable for
18 the tax as a prime contractor, that person is nevertheless deemed to be the
19 prime contractor in lieu of the contractor and is subject to the tax under
20 this section on the gross receipts or gross proceeds received by the
21 contractor.

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

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

33 H. For the purposes of section 42-5032.02, from and after
34 September 30, 2013, the department shall separately account for revenues
35 reported and collected under the prime contracting classification from any
36 prime contractor engaged in the construction of any buildings and associated
37 improvements that are for the benefit of a manufacturing facility. For the
38 purposes of this subsection, "associated improvements" and "manufacturing
39 facility" have the same meanings prescribed in section 42-5032.02.

40 I. The gross proceeds of sales or gross income derived from a contract
41 for lawn maintenance services are not subject to tax under this section if
42 the contract does not include landscaping activities. Lawn maintenance
43 service is a service pursuant to section 42-5061, subsection A, paragraph 1,
44 and includes lawn mowing and edging, weeding, repairing sprinkler heads or
45 drip irrigation heads, seasonal replacement of flowers, refreshing gravel,

1 lawn de-thatching, seeding winter lawns, leaf and debris collection and
2 removal, tree or shrub pruning or clipping, garden and gravel raking and
3 applying pesticides, as defined in section 3-361, and fertilizer materials,
4 as defined in section 3-262.

5 J. Except as provided in subsection 0 of this section, the gross
6 proceeds of sales or gross income derived from landscaping activities are
7 subject to tax under this section. Landscaping includes installing lawns,
8 grading or leveling ground, installing gravel or boulders, planting trees and
9 other plants, felling trees, removing or mulching tree stumps, removing other
10 imbedded plants, building irrigation berms, installing railroad ties and
11 installing underground sprinkler or watering systems.

12 K. The portion of gross proceeds of sales or gross income attributable
13 to the actual direct costs of providing architectural or engineering services
14 that are incorporated in a contract is not subject to tax under this section.
15 For the purposes of this subsection, "direct costs" means the portion of the
16 actual costs that are directly expended in providing architectural or
17 engineering services.

18 L. Operating a landfill or a solid waste disposal facility is not
19 subject to taxation under this section, including filling, compacting and
20 creating vehicle access to and from cell sites within the landfill.
21 Constructing roads to a landfill or solid waste disposal facility and
22 constructing cells within a landfill or solid waste disposal facility may be
23 deemed prime contracting under this section.

24 M. The following apply in determining the taxable situs of sales of
25 manufactured buildings:

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

29 2. For sales in this state where the manufactured building dealer does
30 not contract to deliver the building to a setup site or does not perform the
31 setup, the taxable situs is the location of the dealership where the building
32 is delivered to the buyer.

33 3. For sales in this state where the manufactured building dealer
34 contracts to deliver the building to a setup site that is outside this state,
35 the situs is outside this state and the transaction is excluded from tax.

36 N. The gross proceeds of sales or gross income attributable to a
37 written contract for design phase services or professional services, executed
38 before modification begins and with terms, conditions and pricing of all of
39 these services separately stated in the contract from those for construction
40 phase services, is not subject to tax under this section, regardless of
41 whether the services are provided sequential to or concurrent with prime
42 contracting activities that are subject to tax under this section. This
43 subsection does not include the gross proceeds of sales or gross income
44 attributable to construction phase services. For the purposes of this
45 subsection:

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

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

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

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

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

17 (ii) The amount of an adjustment, if any, to the guaranteed maximum
18 price as set in the contract for modification work. For the purposes of this
19 item, "guaranteed maximum price" means the amount guaranteed to be the
20 maximum amount due to a prime contractor for the performance of all
21 modification work for the project.

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

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

29 (e) Inspection to determine the dates of substantial completion or
30 final completion.

31 (f) Preparation of any manuals, warranties, as-built drawings, spares
32 or other items the prime contractor must furnish pursuant to the contract for
33 modification work. For the purposes of this subdivision, "as-built drawing"
34 means a drawing that indicates field changes made to adapt to field
35 conditions, field changes resulting from change orders or buried and
36 concealed installation of piping, conduit and utility services.

37 (g) Preparation of status reports after modification work has begun
38 detailing the progress of work performed, including preparation of any of the
39 following:

40 (i) Master schedule updates.

41 (ii) Modification work cash flow projection updates.

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

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

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

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

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

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

10 2. "Design phase services" means services for developing and
11 completing a design for a project that are not construction phase services,
12 including the following:

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

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

19 (c) Preparing drawings and specifications for architectural program
20 documents, schematic design documents, design development documents,
21 modification work documents or documents that identify the scope of or
22 materials for the project.

23 (d) Preparing an initial schedule for the project, excluding the
24 preparation of updates to the master schedule after modification work has
25 begun.

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

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

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

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

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

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

42 (vi) Any bond and insurance premiums.

43 (vii) Any applicable taxes.

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

1 (f) Reviewing and evaluating cost estimates and project documents to
2 prepare recommendations on site use, site improvements, selection of
3 materials, building systems and equipment, modification feasibility,
4 availability of materials and labor, local modification activity as related
5 to schedules and time requirements for modification work.

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

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

13 0. The gross proceeds of sales or gross income derived from a contract
14 with the owner of real property or improvements to real property for the
15 maintenance, repair, replacement or alteration of existing property is not
16 subject to tax under this section if the contract does not include
17 modification activities, except as specified in this subsection. The gross
18 proceeds of sales or gross income derived from a de minimis amount of
19 modification activity does not subject the contract or any part of the
20 contract to tax under this section. For the purposes of this subsection:

21 1. Tangible personal property that is incorporated or fabricated into
22 a project described in this subsection may be subject to the amount
23 prescribed in section 42-5008.01.

24 2. Each contract is independent of any other contract, except that any
25 change order that directly relates to the scope of work of the original
26 contract shall be treated the same as the original contract under this
27 chapter, regardless of the amount of modification activities included in the
28 change order. If a change order does not directly relate to the scope of
29 work of the original contract, the change order shall be treated as a new
30 contract, with the tax treatment of any subsequent change order to follow the
31 tax treatment of the contract to which the scope of work of the subsequent
32 change order directly relates.

33 P. Notwithstanding subsection 0 of this section, a contract that
34 primarily involves surface or subsurface improvements to land and that is
35 subject to title 28, chapter 19, 20 or 22 or title 34, chapter 2 or 6 is
36 taxable under this section, even if the contract also includes vertical
37 improvements. Agencies that are subject to procurement processes under those
38 provisions shall include in the request for proposals a notice to bidders
39 when those projects are subject to this section. This subsection does not
40 apply to contracts with:

41 1. Community facilities districts, fire districts, county television
42 improvement districts, community park maintenance districts, cotton pest
43 control districts, hospital districts, pest abatement districts, health
44 service districts, agricultural improvement districts, county free library
45 districts, county jail districts, county stadium districts, special health

1 care districts, public health services districts, theme park districts,
2 regional attraction districts or revitalization districts.

3 2. Any special taxing district not specified in paragraph 1 of this
4 subsection if the district does not substantially engage in the modification,
5 maintenance, repair, replacement or alteration of surface or subsurface
6 improvements to land.

7 Q. Notwithstanding subsection R, paragraph 10 of this section, a
8 person owning real property who enters into a contract for sale of the real
9 property, who is responsible to the new owner of the property for
10 modifications made to the property in the period subsequent to the transfer
11 of title and who receives a consideration for the modifications is considered
12 a prime contractor solely for purposes of taxing the gross proceeds of sale
13 or gross income received for the modifications made subsequent to the
14 transfer of title. The original owner's gross proceeds of sale or gross
15 income received for the modifications shall be determined according to the
16 following methodology:

17 1. If any part of the contract for sale of the property specifies
18 amounts to be paid to the original owner for the modifications to be made in
19 the period subsequent to the transfer of title, the amounts are included in
20 the original owner's gross proceeds of sale or gross income under this
21 section. Proceeds from the sale of the property that are received after
22 transfer of title and that are unrelated to the modifications made subsequent
23 to the transfer of title are not considered gross proceeds of sale or gross
24 income from the modifications.

25 2. If the original owner enters into an agreement separate from the
26 contract for sale of the real property providing for amounts to be paid to
27 the original owner for the modifications to be made in the period subsequent
28 to the transfer of title to the property, the amounts are included in the
29 original owner's gross proceeds of sale or gross income received for the
30 modifications made subsequent to the transfer of title.

31 3. If the original owner is responsible to the new owner for
32 modifications made to the property in the period subsequent to the transfer
33 of title and derives any gross proceeds of sale or gross income from the
34 project subsequent to the transfer of title other than a delayed disbursement
35 from escrow unrelated to the modifications, it is presumed that the amounts
36 are received for the modifications made subsequent to the transfer of title
37 unless the contrary is established by the owner through its books, records
38 and papers kept in the regular course of business.

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

41 R. NOTWITHSTANDING SUBSECTION B OF THIS SECTION, THE ACTIVITIES
42 DESCRIBED IN SUBSECTION B, PARAGRAPHS 1, 4, 5, 6, 7, 9, 10, 14, 15, 16 AND 19
43 ARE NOT DEDUCTIBLE IN COMPUTING THE TAX BASE FOR TAXABLE PERIODS BEGINNING
44 FROM AND AFTER DECEMBER 31, 2026.

45 ~~R.~~ S. For the purposes of this section:

1 1. "Alteration" means an activity or action that causes a direct
2 physical change to existing property. For the purposes of this paragraph:

3 (a) For existing property that is properly classified as class two
4 property under section 42-12002, paragraph 1, subdivision (c) or paragraph 2,
5 subdivision (c) and that is used for residential purposes, class three
6 property under section 42-12003 or class four property under 42-12004, this
7 paragraph does not apply if the contract amount is more than twenty-five
8 percent of the most recent full cash value established under chapter 13,
9 article 2 of this title as of the date of any bid for the work or the date of
10 the contract, whichever value is higher.

11 (b) For all existing property other than existing property described
12 in subdivision (a) of this paragraph, this paragraph does not apply if any of
13 the following is true:

14 (i) The contract amount is more than seven hundred fifty thousand
15 dollars.

16 (ii) The scope of work directly relates to more than forty percent of
17 the existing square footage of the existing property.

18 (iii) The scope of work involves expanding the square footage of more
19 than ten percent of the existing property.

20 (c) Project elements may not be artificially separated from a contract
21 to cause a project to qualify as an alteration. The department has the
22 burden of proof that project elements have been artificially separated from a
23 contract.

24 (d) If a project for which the owner and the person performing the
25 work reasonably believed, at the inception of the contract, would be treated
26 as an alteration under this paragraph and, on completion of the project, the
27 project exceeded the applicable threshold described in either subdivision (a)
28 or (b) of this paragraph by no more than twenty-five percent of the
29 applicable threshold for any reason, the work performed under the contract
30 qualifies as an alteration.

31 (e) A change order that directly relates to the scope of work of the
32 original contract shall be treated as part of the original contract, and the
33 contract amount shall include any amount attributable to a change order that
34 directly relates to the scope of work of the original contract.

35 (f) Alteration does not include maintenance, repair or replacement.

36 2. "Contracting" means engaging in business as a contractor.

37 3. "Contractor" is synonymous with the term "builder" and means any
38 person or organization that undertakes to or offers to undertake to, or
39 purports to have the capacity to undertake to, or submits a bid to, or does
40 personally or by or through others, modify any building, highway, road,
41 railroad, excavation, manufactured building or other structure, project,
42 development or improvement, or to do any part of such a project, including
43 the erection of scaffolding or other structure or works in connection with
44 such a project, and includes subcontractors and specialty contractors. For
45 all purposes of taxation or deduction, this definition shall govern without

1 regard to whether or not such contractor is acting in fulfillment of a
2 contract.

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

5 5. "Manufactured building dealer" means a dealer who either:

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

8 (b) Supervises, performs or coordinates the excavation and completion
9 of site improvements or the setup or moving of a manufactured building
10 including the contracting, if any, with any subcontractor or specialty
11 contractor for the completion of the contract.

12 6. "Modification" means construction, grading and leveling ground,
13 wreckage or demolition. Modification does not include:

14 (a) Any project described in subsection 0 of this section.

15 (b) Any wreckage or demolition of existing property, or any other
16 activity that is a necessary component of a project described in subsection 0
17 of this section.

18 (c) Any mobilization or demobilization related to a project described
19 in subsection 0 of this section, such as the erection or removal of temporary
20 facilities to be used by those persons working on the project.

21 7. "Modify" means to make a modification or cause a modification to be
22 made.

23 8. "Owner" means the person that holds title to the real property or
24 improvements to real property that is the subject of the work, as well as an
25 agent of the title holder and any person with the authority to perform or
26 authorize work on the real property or improvements, including a tenant and a
27 property manager. For the purposes of subsection 0 of this section, a person
28 who is hired by a general contractor that is hired by an owner, or a
29 subcontractor of a general contractor that is hired by an owner, is
30 considered to be hired by the owner.

31 9. "Prime contracting" means engaging in business as a prime
32 contractor.

33 10. "Prime contractor" means a contractor who supervises, performs or
34 coordinates the modification of any building, highway, road, railroad,
35 excavation, manufactured building or other structure, project, development or
36 improvement including the contracting, if any, with any subcontractors or
37 specialty contractors and who is responsible for the completion of the
38 contract. Except as provided in subsections E and Q of this section, a
39 person who owns real property, who engages one or more contractors to modify
40 that real property and who does not itself modify that real property is not a
41 prime contractor within the meaning of this paragraph regardless of the
42 existence of a contract for sale or the subsequent sale of that real
43 property.

44 11. "Replacement" means the removal from service of one component or
45 system of existing property or tangible personal property installed in

1 existing property, including machinery or equipment, and the installation of
2 a new component or system or new tangible personal property, including
3 machinery or equipment, that provides the same similar or upgraded design or
4 functionality, regardless of the contract amount and regardless of whether
5 the existing component or system or existing tangible personal property is
6 physically removed from the existing property.

7 12. "Sale of a used manufactured building" does not include a lease of
8 a used manufactured building.

9 Sec. 13. Delayed repeal

10 Title 42, chapter 5, article 3, Arizona Revised Statutes, is repealed
11 from and after December 31, 2026.

12 Sec. 14. Section 42-5159, Arizona Revised Statutes, is amended to
13 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.

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

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

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

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

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

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

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

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

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

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

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

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

31 13. Tangible personal property purchased by:

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

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

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

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

1 (e) A qualifying health care organization as defined in section
2 42-5001 if the organization is dedicated to providing educational,
3 therapeutic, rehabilitative and family medical education training for blind
4 and visually impaired children and children with multiple disabilities from
5 the time of birth to age twenty-one.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15 15. Tangible personal property sold by:

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

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

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

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

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

36 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

19 27. Lottery tickets or shares purchased pursuant to title 5, chapter
20 5.1, article 1.

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

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

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

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

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

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

43 (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 with a physical disability as defined in section
8 46-191 or a person who has a developmental disability as defined in section
9 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
36 used 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
14 pursuant to a personal property liquidation transaction, as defined in
15 section 42-5061. From and after December 31, 1994, tangible personal
16 property sold pursuant to a personal property liquidation transaction, as
17 defined in section 42-5061, if the gross proceeds of the sales were included
18 in the measure of the tax imposed by article 1 of this chapter or if the
19 personal 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
10 is exempt from taxation under section 501(c)(6) of the internal revenue code
11 if 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 56. Tangible personal property incorporated or fabricated into a
19 project described in section 42-5075, subsection 0, that is located within
20 the exterior boundaries of an Indian reservation for which the owner, as
21 defined in section 42-5075, of the project is an Indian tribe or an
22 affiliated Indian. For the purposes of this paragraph:

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

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

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

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

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

44 2. Machinery, or equipment, used directly in the process of extracting
45 ores or minerals from the earth for commercial purposes, including equipment

1 required to prepare the materials for extraction and handling, loading or
2 transporting such extracted material to the surface. "Mining" includes
3 underground, surface and open pit operations for extracting ores and
4 minerals.

5 3. Tangible personal property sold to persons engaged in business
6 classified under the telecommunications classification under section 42-5064,
7 including a person representing or working on behalf of such a person in a
8 manner described in section 42-5075, subsection 0, and consisting of central
9 office switching equipment, switchboards, private branch exchange equipment,
10 microwave radio equipment and carrier equipment including optical fiber,
11 coaxial cable and other transmission media that are components of carrier
12 systems.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24 2. Janitorial equipment and hand tools.

25 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

1 2. Revenues received from providing electricity, including ancillary
2 services, electric distribution services, electric generation services,
3 electric transmission services and other services related to providing
4 electricity with respect to which the transaction privilege tax imposed under
5 section 42-5063 has been paid.

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

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

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

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

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

23 1. A business that is principally engaged in manufacturing or smelting
24 operations and that uses at least fifty-one percent of the electricity or
25 natural gas in the manufacturing or smelting operations. This paragraph does
26 not apply to gas transportation services. For the purposes of this
27 paragraph:

28 (a) "Gas transportation services" means the services of transporting
29 natural gas to a natural gas customer or to a natural gas distribution
30 facility if the natural gas was purchased from a supplier other than the
31 utility.

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

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

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

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

1 H. NOTWITHSTANDING SUBSECTIONS A AND B OF THIS SECTION, THE TANGIBLE
2 PERSONAL PROPERTY IN THE FOLLOWING CATEGORIES IS NOT EXEMPT FOR TAXABLE
3 PERIODS BEGINNING FROM AND AFTER DECEMBER 31, 2026:

4 1. SUBSECTION A, PARAGRAPHS 3, 4, 7, 8, 9, 12, 13, 14, 15, 16, 17, 18,
5 19, 20, 21, 22, 24, 26, 27, 28, 29, 30, 33, 35, 36, 37, 42, 43, 44, 48, 50,
6 51, 52, 53 AND 54 OF THIS SECTION.

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

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

10 1. "Aircraft" includes:

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

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

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

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

24 Sec. 15. 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.