

State of Arizona  
House of Representatives  
Fifty-first Legislature  
First Regular Session  
2013

**CHAPTER 255**  
**HOUSE BILL 2111**

AN ACT

AMENDING SECTIONS 42-1004, 42-2003, 42-2059, 42-2075, 42-5009, 42-5010 AND 42-5014, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5015; AMENDING SECTIONS 42-5029, 42-5032.01 AND 42-5032.02, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5039; AMENDING SECTIONS 42-5061, 42-5071 AND 42-5075, ARIZONA REVISED STATUTES; REPEALING SECTION 42-5076, ARIZONA REVISED STATUTES; AMENDING SECTIONS 42-5159, 42-6001, 42-6002, 42-6004, 42-6005, 42-6105, 42-6106 AND 42-6107, ARIZONA REVISED STATUTES; RELATING TO TRANSACTION PRIVILEGE TAXES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-1004, Arizona Revised Statutes, is amended to  
3 read:

4 42-1004. General powers and duties of the department: res  
5 judicata; remedies; enforcement; special collections  
6 account

7 A. The department shall administer and enforce this title, title 43  
8 and other laws assigned to it and has all the powers and duties prescribed by  
9 law for such purposes. In all proceedings prescribed by law the department  
10 may act on behalf of this state. In addition, the department shall:

11 1. Formulate policies, plans and programs to effectuate the missions  
12 and purposes of the department.

13 2. Employ and remove personnel subject to title 41, chapter 4, article  
14 4 and, as applicable, articles 5 and 6, determine the conditions of  
15 employment and prescribe the duties and powers of administrative,  
16 professional, technical, secretarial, clerical and other personnel as may be  
17 necessary in the performance of its duties, and contract for the services of  
18 outside advisors, consultants and aides as may be reasonably necessary.

19 3. Make contracts and incur obligations within the general scope of  
20 its activities and operations subject to the availability of its funds.

21 4. Contract with or assist other departments, agencies or institutions  
22 of the state, local, Indian tribal and federal governments in the furtherance  
23 of its purposes, objectives and programs.

24 5. Accept grants, matching funds and direct payments from public or  
25 private agencies for the conduct of programs which are consistent with the  
26 overall purposes and objectives of the department.

27 6. Provide information and advice within the scope of its duties  
28 subject to the laws on confidentiality of information and departmental rules  
29 adopted pursuant to such laws.

30 7. Advise with and make recommendations to the governor and the  
31 legislature on all matters concerning its objectives.

32 8. Have an official seal which shall be judicially noticed.

33 9. Provide an integrated, coordinated and uniform system of tax  
34 administration and revenue collection for the state, **INCLUDING A COORDINATED**  
35 **ELECTRONIC METHOD OF COLLECTING STATE AND MUNICIPAL TRANSACTION PRIVILEGE AND**  
36 **AFFILIATED EXCISE TAXES.**

37 B. The department may:

38 1. With the approval of the attorney general:

39 (a) Abate any balance owed by a taxpayer if the balance is  
40 uncollectible. Related liens, if any, are extinguished on abatement.

41 (b) Abate all or part of the unpaid portion of any tax if the director  
42 determines that the administration and collection costs involved would exceed  
43 the amount of the tax.

44 2. Offer publications relating to the administration of state taxes  
45 for sale at a price equal to the pro rata cost of publication and

1 distribution. Monies received from the sale of publications shall be placed  
2 in a revenue publications revolving fund. Monies in the fund:

3 (a) Shall be used to meet publication and distribution expenses.

4 (b) Are exempt from the provisions of section 35-190 relating to  
5 lapsing of appropriations.

6 3. Enter into contingent fee contracts to collect delinquent state  
7 taxes, penalties, interest and other amounts owed to the department under  
8 title 43 and chapter 5, article 1 of this title, consistent with the  
9 requirements of chapter 2, article 1 of this title. No contract may be  
10 entered into for the hiring of auditors on a contingent fee basis except  
11 auditors that are hired to enforce title 44, chapter 3.

12 C. In the determination of any issue of law or fact under this title  
13 or title 43, neither the department, nor any officer or agency having any  
14 administrative duties under this title or title 43, nor any court is bound by  
15 the determination of any other executive officer or administrative agency of  
16 this state. In the determination of any case arising under this title or  
17 title 43, the rule of res judicata is applicable only if the liability  
18 involved is for the same year or period as was involved in another case  
19 previously determined under this title or title 43.

20 D. The remedies of this state provided for in this title and title 43  
21 are cumulative, and no action taken by the department constitutes an election  
22 by this state to pursue any remedy to the exclusion of any other remedy  
23 provided by law.

24 E. The attorney general shall prosecute in the name of this state all  
25 actions necessary to enforce this title and title 43. The attorney general  
26 may defend all actions brought against this state or an officer or agency of  
27 this state arising under this title and title 43. The attorney general may  
28 delegate the prosecuting authority to any county attorney for prosecution in  
29 that county.

30 F. A special collections account is established in the state general  
31 fund. All monies collected pursuant to contracts authorized by subsection B,  
32 paragraph 3 of this section shall be deposited in the special collections  
33 account. The department shall pay from the account all fees and court costs  
34 provided for in the contracts authorized under subsection B, paragraph 3 of  
35 this section. The department shall allocate the remainder of the amounts  
36 collected under subsection B, paragraph 3 of this section to the state or the  
37 political subdivision in the proportion that the monies would have been  
38 distributed pursuant to chapter 5 of this title or section 43-206,  
39 respectively.

40 Sec. 2. Section 42-2003, Arizona Revised Statutes, is amended to read:

41 42-2003. Authorized disclosure of confidential information

42 A. Confidential information relating to:

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

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

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

8           4. An estate may be disclosed to the personal representative of the  
9 estate and to any heir, next of kin or beneficiary under the will of the  
10 decedent if the department finds that the heir, next of kin or beneficiary  
11 has a material interest which will be affected by the confidential  
12 information.

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

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

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

22           B. Confidential information may be disclosed to:

23           1. Any employee of the department whose official duties involve tax  
24 administration.

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

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

35           4. Other state tax officials whose official duties require the  
36 disclosure for proper tax administration purposes if the information is  
37 sought in connection with an investigation or any other proceeding conducted  
38 by the official. Any disclosure is limited to information of a taxpayer who  
39 is being investigated or who is a party to a proceeding conducted by the  
40 official.

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

1 (a) The United States internal revenue service, alcohol and tobacco  
2 tax and trade bureau of the United States treasury, United States bureau of  
3 alcohol, tobacco, firearms and explosives of the United States department of  
4 justice, United States drug enforcement agency and federal bureau of  
5 investigation.

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

7 (c) An organization of states, federation of tax administrators or  
8 multistate tax commission that operates an information exchange for tax  
9 administration purposes.

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

13 (e) An agency, official or organization of an Indian tribal government  
14 with responsibilities comparable to the responsibilities of the agencies,  
15 officials or organizations identified in subdivision (a), (b) or (c) of this  
16 paragraph.

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

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

21 (a) The processing, storage, transmission, destruction and  
22 reproduction of the information.

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

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

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

29 (a) Regarding income tax or withholding tax.

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

32 9. The United States treasury inspector general for tax administration  
33 for the purpose of reporting a violation of internal revenue code section  
34 7213A (26 United States Code section 7213A), unauthorized inspection of  
35 returns or return information.

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

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

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

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

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

1 (c) Fulfilling its annual reporting responsibility pursuant to section  
2 41-1511, subsections U and V and section 41-1512, subsections U and V.

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

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

6 15. The department of transportation for its use in administering taxes  
7 and surcharges prescribed by title 28.

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

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

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

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

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

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

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

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

27 E. The department, on the request of any person, shall provide the  
28 names and addresses of bingo licensees as defined in section 5-401, verify  
29 whether or not a person has a privilege license and number, a distributor's  
30 license and number or a withholding license and number or disclose the  
31 information to be posted on the department's website or otherwise publicly  
32 accessible pursuant to section 42-1124, subsection F and section 42-3201,  
33 subsection A.

34 F. A department employee, in connection with the official duties  
35 relating to any audit, collection activity or civil or criminal  
36 investigation, may disclose return information to the extent that disclosure  
37 is necessary to obtain information that is not otherwise reasonably  
38 available. These official duties include the correct determination of and  
39 liability for tax, the amount to be collected or the enforcement of other  
40 state tax revenue laws.

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

1 H. Confidential information relating to transaction privilege tax, use  
2 tax, severance tax, jet fuel excise and use tax and ~~and~~ any other tax  
3 collected by the department on behalf of ~~the county~~ ANY JURISDICTION may be  
4 disclosed to any county, city or town tax official if the information relates  
5 to a taxpayer who is or may be taxable by the county, city or town OR WHO MAY  
6 BE SUBJECT TO AUDIT BY THE DEPARTMENT PURSUANT TO SECTION 42-6002. Any  
7 taxpayer information released by the department to the county, city or town:

- 8 1. May only be used for internal purposes, INCLUDING AUDITS.  
9 2. May not be disclosed to the public in any manner that does not  
10 comply with confidentiality standards established by the department. The  
11 county, city or town shall agree in writing with the department that any  
12 release of confidential information that violates the confidentiality  
13 standards adopted by the department will result in the immediate suspension  
14 of any rights of the county, city or town to receive taxpayer information  
15 under this subsection.

16 I. The department may disclose statistical information gathered from  
17 confidential information if it does not disclose confidential information  
18 attributable to any one taxpayer. The department may disclose statistical  
19 information gathered from confidential information, even if it discloses  
20 confidential information attributable to a taxpayer, to:

- 21 1. The state treasurer in order to comply with the requirements of  
22 section 42-5029, subsection A, paragraph 3.  
23 2. The joint legislative income tax credit review committee and the  
24 joint legislative budget committee staff in order to comply with the  
25 requirements of section 43-221.

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

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

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

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

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

1           O. This section does not prohibit the disclosure by the department of  
2 any information or documents submitted to the department by a bingo licensee.  
3 Before disclosing the information the department shall obtain the name and  
4 address of the person requesting the information.

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

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

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

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

22           T. The department shall release confidential information as requested  
23 by the attorney general for purposes of determining compliance with and  
24 enforcing section 44-7101, the master settlement agreement referred to  
25 therein and subsequent agreements to which the state is a party that amend or  
26 implement the master settlement agreement. Information disclosed under this  
27 subsection is limited to luxury tax information relating to tobacco  
28 manufacturers, distributors, wholesalers and retailers and information  
29 collected by the department pursuant to section 44-7101(2)(j).

30           U. For proceedings before the department, the office of administrative  
31 hearings, the board of tax appeals or any state or federal court involving  
32 penalties that were assessed against a return preparer, an electronic return  
33 preparer or a payroll service company pursuant to section 42-1103.02,  
34 42-1125.01 or 43-419, confidential information may be disclosed only before  
35 the judge or administrative law judge adjudicating the proceeding, the  
36 parties to the proceeding and the parties' representatives in the proceeding  
37 prior to its introduction into evidence in the proceeding. The confidential  
38 information may be introduced as evidence in the proceeding only if the  
39 taxpayer's name, the names of any dependents listed on the return, all social  
40 security numbers, the taxpayer's address, the taxpayer's signature and any  
41 attachments containing any of the foregoing information are redacted and if  
42 either:

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

45           2. Such return or return information relates or may relate to a  
46 transactional relationship between a person who is a party to the proceeding

1 and the taxpayer which directly affects the resolution of an issue in the  
2 proceeding.

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

6 V. The department may disclose to the attorney general confidential  
7 information received under section 44-7111 and requested by the attorney  
8 general for purposes of determining compliance with and enforcing section  
9 44-7111. The department and attorney general shall share with each other the  
10 information received under section 44-7111, and may share the information  
11 with other federal, state or local agencies only for the purposes of  
12 enforcement of section 36-798.06, 44-7101, ~~OR~~ 44-7111 or corresponding laws  
13 of other states.

14 W. The department may provide the name and address of qualifying  
15 hospitals and qualifying health care organizations, as defined in section  
16 42-5001, to a business classified and reporting transaction privilege tax  
17 under the utilities classification.

18 X. The department may disclose to the attorney general confidential  
19 information requested by the attorney general for the purposes of determining  
20 compliance with and enforcing section 36-798.06.

21 Y. The department may disclose to an official of any city, town or  
22 county in a current agreement or considering a prospective agreement with the  
23 department as described in section 42-5032.02, subsection F any information  
24 relating to amounts subject to distribution required by section 42-5032.02.  
25 Information disclosed by the department under this subsection:

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

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

33 Sec. 3. Section 42-2059, Arizona Revised Statutes, is amended to read:

34 42-2059. No additional audits or proposed assessments;  
35 exceptions

36 A. When the department completes an audit or the findings of a managed  
37 audit are accepted by the director or approved on appeal and a deficiency has  
38 been completely determined under section 42-1108 or chapter 1, article 6 of  
39 this title, the taxpayer's liability for the particular tax for the period  
40 subjected to the audit is fixed and determined, and no additional audit may  
41 be conducted except under the following circumstances:

42 1. If a taxpayer files a claim for refund under section 42-1251,  
43 subsection B or any other provision authorizing a claim for refund. Any  
44 departmental audit of the claim is limited to the issues presented on the  
45 claim for refund.

1           2. Changes or corrections required to be reported to the department by  
2 section 43-327. The department may audit any such reports or any periods for  
3 which a report was required notwithstanding this section and may determine a  
4 tax deficiency or a refund.

5           ~~3. An audit of state transaction privilege or use tax does not~~  
6 ~~preclude a subsequent audit for a city or town. An audit of transaction~~  
7 ~~privilege or use tax for a city or town does not preclude a subsequent audit~~  
8 ~~for this state.~~

9           ~~4.~~ 3. If the taxpayer failed to disclose material information during  
10 the audit, or has falsified books or records or otherwise engaged in an  
11 action that prevented the department from conducting an accurate audit, the  
12 applicability of this subsection may be part of a subsequent protest and may  
13 be contested by the taxpayer pursuant to chapter 1, article 6 of this title.

14           ~~5.~~ 4. If a managed audit is completed under the terms of a limited  
15 managed audit agreement, the department may audit the issues not covered by  
16 the limited managed audit agreement within the statute of limitations  
17 prescribed by section 42-1104.

18           B. If the department issues a notice of proposed assessment of taxes  
19 imposed by chapter 5, article 1 or 4 of this title or title 43, chapter 10,  
20 the department may not increase the amount of the proposed assessment except  
21 in one or more of the following circumstances:

- 22           1. The taxpayer has made a material misrepresentation of facts.
- 23           2. The taxpayer has failed to disclose a material fact to the auditor.
- 24           3. The department has requested information and the taxpayer fails to  
25 provide that information to the department.

26           4. After issuing the notice of proposed assessment but before the  
27 assessment becomes final the tax court, court of appeals or supreme court  
28 issues a decision, the application of which causes the tax initially proposed  
29 to increase.

30           C. Subsection B of this section does not apply to changes or  
31 corrections that are required to be reported to the department by section  
32 43-327.

33           Sec. 4. Section 42-2075, Arizona Revised Statutes, is amended to read:  
34           42-2075. Audit duration; definition

35           A. An audit of a taxpayer's return or claim for refund shall not  
36 exceed two years from the date of initial audit contact to the issuance of a  
37 notice of proposed deficiency assessment or proposed overpayment, except:

- 38           1. An audit of a fraudulent tax return.
- 39           2. An audit delayed as the result of the taxpayer's bankruptcy  
40 proceeding.

41           3. An audit in which the department has issued a letter to the  
42 taxpayer or the taxpayer's representative citing the potential imposition of  
43 the penalty described in section 42-1125, subsection C for the taxpayer's  
44 failure or refusal to provide information pursuant to the department's  
45 written request.

1           4. An audit involving proceedings concerning the enforcement or  
2 validity of a subpoena or subpoena duces tecum issued pursuant to section  
3 42-1006, subsection C.

4           5. An audit involving a proceeding under section 42-2056.

5           6. An audit where a taxpayer has filed a petition pursuant to section  
6 43-1148, but only in relation to the effect of the petition request.

7           7. An audit in which the taxpayer provides a written request to extend  
8 the audit beyond the two-year period. A request for extension under this  
9 paragraph is not a substitute for a waiver of the statute of limitations  
10 pursuant to section 42-1104, subsection B, paragraph 9. However, a waiver of  
11 the statute of limitations is considered to be a written request to extend  
12 the audit beyond the two-year period under this paragraph.

13           B. This section applies to audits conducted by the department and to  
14 ~~joint~~ audits conducted by the department and cities and towns pursuant to  
15 section ~~42-6005~~ 42-6002.

16           C. For the purposes of this section, "initial audit contact" means:

17           1. For a field audit, the date of the first meeting between the  
18 taxpayer or the taxpayer's representative and a member of the department's  
19 audit staff.

20           2. For a desk or office audit, the date of the first letter to the  
21 taxpayer regarding the audit.

22           Sec. 5. Section 42-5009, Arizona Revised Statutes, is amended to read:  
23 42-5009. Certificates establishing deductions; liability for  
24 making false certificate

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

28           1. Marking the invoice for the transaction to indicate that the gross  
29 proceeds of sales or gross income derived from the transaction was deducted  
30 from the tax base.

31           2. Obtaining a certificate executed by the purchaser indicating the  
32 name and address of the purchaser, the precise nature of the business of the  
33 purchaser, the purpose for which the purchase was made, the necessary facts  
34 to establish the appropriate deduction and the tax license number of the  
35 purchaser to the extent the deduction depends on the purchaser conducting  
36 business classified under article 2 of this chapter and a certification that  
37 the person executing the certificate is authorized to do so on behalf of the  
38 purchaser. The certificate may be disregarded if the seller has reason to  
39 believe that the information contained in the certificate is not accurate or  
40 complete.

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

44           C. The department may prescribe a form for the certificate described  
45 in subsection A of this section. Under such rules as it may prescribe, the  
46 department may also describe transactions with respect to which a person is

1 not entitled to rely solely on the information contained in the certificate  
2 provided for in subsection A of this section but must instead obtain such  
3 additional information as required by the rules in order to be entitled to  
4 the deduction.

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

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

30 F. The department may prescribe a form for a certificate used to  
31 establish entitlement to the deductions described in section 42-5061,  
32 subsection A, paragraph ~~47~~ 46 and section 42-5063, subsection B, paragraph 3.  
33 Under rules the department may prescribe, the department may also require  
34 additional information for the seller to be entitled to the deduction. If a  
35 seller is entitled to the deductions described in section 42-5061, subsection  
36 A, paragraph ~~47~~ 46 and section 42-5063, subsection B, paragraph 3, the  
37 department may require the purchaser who executed the certificate to  
38 establish the accuracy and completeness of the information contained in the  
39 certificate that would entitle the seller to the deduction. If the purchaser  
40 cannot establish the accuracy and completeness of the information, the  
41 purchaser is liable in an amount equal to any tax, penalty and interest that  
42 the seller would have been required to pay under this article. Payment of  
43 the amount under this subsection exempts the purchaser from liability for any  
44 tax imposed under article 4 of this chapter. The amount shall be treated as  
45 tax revenues collected from the seller in order to designate the distribution  
46 base for purposes of section 42-5029.

1 G. If a seller claims a deduction under section 42-5061, subsection A,  
2 paragraph 25 and establishes entitlement to the deduction with an exemption  
3 letter that the purchaser received from the department and the exemption  
4 letter was based on a contingent event, the department may require the  
5 purchaser that received the exemption letter to establish the satisfaction of  
6 the contingent event within a reasonable time. If the purchaser cannot  
7 establish the satisfaction of the event, the purchaser is liable in an amount  
8 equal to any tax, penalty and interest that the seller would have been  
9 required to pay under this article if the seller had not been furnished the  
10 exemption letter. Payment of the amount under this subsection exempts the  
11 purchaser from liability for any tax imposed under article 4 of this chapter.  
12 The amount shall be treated as tax revenues collected from the seller in  
13 order to designate the distribution base for purposes of section 42-5029.  
14 For the purposes of this subsection, "reasonable time" means a time  
15 limitation that the department determines and that does not exceed the time  
16 limitations pursuant to section 42-1104.

17 H. The department shall prescribe forms for certificates used to  
18 establish the satisfaction of the criteria necessary to qualify the sale of a  
19 motor vehicle for the deductions described in section 42-5061, subsection A,  
20 paragraph 14, paragraph 28, subdivision (a) and paragraph ~~45~~ 44 and  
21 subsection U. To establish entitlement to these deductions, a motor vehicle  
22 dealer shall retain:

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

26 2. A copy of the nonresident registration permit authorized by section  
27 28-2154.

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

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

36 I. Notwithstanding subsection A, paragraph 2 of this section, if a  
37 motor vehicle dealer has established entitlement to a deduction by complying  
38 with subsection H of this section, the department may require the purchaser  
39 who executed the certificate to establish the accuracy and completeness of  
40 the information contained in the certificate that entitled the motor vehicle  
41 dealer to the deduction. If the purchaser cannot establish the accuracy and  
42 completeness of the information, the purchaser is liable in an amount equal  
43 to any tax, penalty and interest that the motor vehicle dealer would have  
44 been required to pay under this article and under articles IV and V of the  
45 model city tax code as defined in section 42-6051. Payment of the amount  
46 under this subsection exempts the purchaser from liability for any tax

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

5 J. Notwithstanding any other law, compliance with subsection H of this  
6 section by a motor vehicle dealer entitles the motor vehicle dealer to the  
7 exemption provided in section 42-6004, subsection A, paragraph 4.

8 K. THE DEPARTMENT SHALL PRESCRIBE A FORM FOR A CERTIFICATE TO BE USED  
9 BY A CONTRACTOR THAT IS NOT OTHERWISE SUBJECT TO TAX UNDER SECTION 42-5075  
10 WHEN PURCHASING TANGIBLE PERSONAL PROPERTY TO BE INCORPORATED OR FABRICATED  
11 BY THE PERSON INTO ANY REAL PROPERTY, STRUCTURE, PROJECT, DEVELOPMENT OR  
12 IMPROVEMENT. THE CONTRACTOR SHALL OBTAIN A NEW CERTIFICATE FOR EACH PROJECT  
13 AND IS SUBJECT TO THE FOLLOWING CONDITIONS:

14 1. THE CONTRACTOR IS NOT WORKING FOR THE OWNER OF THE REAL PROPERTY  
15 BUT IS WORKING ON A JOB THAT IS IN THE CONTROL OF A PRIME CONTRACTOR AND THAT  
16 THE PRIME CONTRACTOR IS LIABLE FOR THE TAX ON THE GROSS INCOME, GROSS  
17 PROCEEDS OF SALES OR GROSS RECEIPTS ATTRIBUTABLE TO THE JOB AND FROM WHICH  
18 THE CONTRACTOR IS PAID.

19 2. THE CONTRACTOR MAY USE THE CERTIFICATE ISSUED PURSUANT TO THIS  
20 SUBSECTION ONLY WITH RESPECT TO MATERIALS THAT WILL BE INCORPORATED INTO A  
21 PROJECT THE GROSS RECEIPTS OF WHICH ARE SUBJECT TO TAX UNDER SECTION 42-5075.

22 3. THE DEPARTMENT SHALL ISSUE THE CERTIFICATE TO THE CONTRACTOR ON  
23 RECEIVING SUFFICIENT DOCUMENTATION TO ESTABLISH THAT THE CONTRACTOR MEETS THE  
24 REQUIREMENTS OF THIS SUBSECTION.

25 4. THE DEPARTMENT SHALL NOT ISSUE A CERTIFICATE TO A CONTRACTOR THAT  
26 HAS A DELINQUENT TAX BALANCE OWING THE DEPARTMENT UNDER THIS TITLE OR  
27 TITLE 43.

28 5. IF THE DEPARTMENT DETERMINES THAT THE CONTRACTOR HAS FAILED TO MEET  
29 ANY OF THE REQUIREMENTS OF THIS SUBSECTION, ANY DEDUCTIONS FROM TAXATION FROM  
30 THE USE OF THE CERTIFICATE ARE SUBJECT TO RECAPTURE AND PAYMENT BY THE  
31 CONTRACTOR.

32 Sec. 6. Section 42-5010, Arizona Revised Statutes, is amended to read:  
33 42-5010. Rates; distribution base

34 A. The tax imposed by this article is levied and shall be collected at  
35 the following rates:

36 1. Five per cent of the tax base as computed for the business of every  
37 person engaging or continuing in this state in the following business  
38 classifications described in article 2 of this chapter:

- 39 (a) Transporting classification.
- 40 (b) Utilities classification.
- 41 (c) Telecommunications classification.
- 42 (d) Pipeline classification.
- 43 (e) Private car line classification.
- 44 (f) Publication classification.
- 45 (g) Job printing classification.
- 46 (h) Prime contracting classification.

1           ~~(i) Owner builder sales classification.~~  
2           ~~(j)~~ (i) Amusement classification.  
3           ~~(k)~~ (j) Restaurant classification.  
4           ~~(l)~~ (k) Personal property rental classification.  
5           ~~(m)~~ (l) Retail classification.  
6           2. Five and one-half per cent of the tax base as computed for the  
7 business of every person engaging or continuing in this state in the  
8 transient lodging classification described in section 42-5070.  
9           3. Three and one-eighth per cent of the tax base as computed for the  
10 business of every person engaging or continuing in this state in the mining  
11 classification described in section 42-5072.  
12           4. Zero per cent of the tax base as computed for the business of every  
13 person engaging or continuing in this state in the commercial lease  
14 classification described in section 42-5069.  
15           B. Except as provided by subsection J of this section, twenty per cent  
16 of the tax revenues collected at the rate prescribed by subsection A,  
17 paragraph 1 of this section from persons on account of engaging in business  
18 under the business classifications listed in subsection A, paragraph 1,  
19 subdivisions (a) through ~~(i)~~ (h) of this section is designated as  
20 distribution base for purposes of section 42-5029.  
21           C. Forty per cent of the tax revenues collected at the rate prescribed  
22 by subsection A, paragraph 1 of this section from persons on account of  
23 engaging in business under the business classifications listed in subsection  
24 A, paragraph 1, subdivisions ~~(j)~~ (i) through ~~(m)~~ (l) of this section is  
25 designated as distribution base for purposes of section 42-5029.  
26           D. Thirty-two per cent of the tax revenues collected from persons on  
27 account of engaging in business under the business classification listed in  
28 subsection A, paragraph 3 of this section is designated as distribution base  
29 for purposes of section 42-5029.  
30           E. Fifty-three and one-third per cent of the tax revenues collected  
31 from persons on account of engaging in business under the business  
32 classification listed in subsection A, paragraph 4 of this section is  
33 designated as distribution base for purposes of section 42-5029.  
34           F. Fifty per cent of the tax revenues collected from persons on  
35 account of engaging in business under the business classification listed in  
36 subsection A, paragraph 2 of this section is designated as distribution base  
37 for purposes of section 42-5029.  
38           G. In addition to the rates prescribed by subsection A of this  
39 section, if approved by the qualified electors voting at a statewide general  
40 election, an additional rate increment is imposed and shall be collected  
41 through June 30, 2021. The taxpayer shall pay taxes pursuant to this  
42 subsection at the same time and in the same manner as under subsection A of  
43 this section. The department shall separately account for the revenues  
44 collected with respect to the rates imposed pursuant to this subsection and  
45 the state treasurer shall distribute all of those revenues in the manner  
46 prescribed by section 42-5029, subsection E. The rates imposed pursuant to

1 this subsection shall not be considered local revenues for purposes of  
2 article IX, section 21, Constitution of Arizona. The additional tax rate  
3 increment is levied at the rate of six-tenths of one per cent of the tax base  
4 of every person engaging or continuing in this state in a business  
5 classification listed in subsection A, paragraph 1 of this section.

6 H. Any increase in the rate of tax that is imposed by this chapter and  
7 that is enacted by the legislature or by a vote of the people does not apply  
8 with respect to contracts entered into by prime contractors or pursuant to  
9 written bids made by prime contractors on or before the effective date of the  
10 legislation or the date of the election enacting the increase. To qualify  
11 for the exemption under this subsection, the prime contractor must maintain  
12 sufficient documentation, in a manner and form prescribed by the department,  
13 to verify the date of the contract or written bid.

14 I. For taxpayers taxable under this chapter other than prime  
15 contractors taxable pursuant to section 42-5075:

16 1. Any increase in the rate of tax that is levied by this article or  
17 article 2 of this chapter enacted by the legislature or by a vote of the  
18 people does not apply for a period of one hundred twenty days from the date  
19 of the tax rate increase to the gross proceeds of sales or gross income from  
20 the business of the taxpayer with respect to written contracts entered into  
21 before the effective date of the tax rate increase unless the taxpayer has  
22 entered into a contract that contains a provision that entitles the taxpayer  
23 to recover from the purchaser the amount of the additional tax levied.

24 2. The provisions of this subsection apply without regard to the  
25 accounting method used by the taxpayer to report the taxes imposed under  
26 article 2 of this chapter.

27 3. The provisions of this subsection shall not be considered in  
28 determining the rate of tax imposed under chapter 6, article 3 of this title.

29 J. Zero per cent of the tax revenues that are collected at the rate  
30 prescribed by subsection A, paragraph 1 of this section from persons on  
31 account of engaging in business under the business classification listed in  
32 subsection A, paragraph 1, subdivision ~~(h)~~ (l) of this section, and that are  
33 subject to any distribution required by section 42-5032.02, is designated as  
34 distribution base for the purposes of section 42-5029 until the total amount  
35 subject to distribution pursuant to section 42-5032.02 has reached the  
36 maximum amount prescribed by section 42-5032.02, subsection C. Thereafter,  
37 twenty per cent of the remaining tax revenues is designated as distribution  
38 base for the purposes of section 42-5029 as provided by subsection B of this  
39 section.

40 Sec. 7. Section 42-5014, Arizona Revised Statutes, is amended to read:

41 42-5014. Return and payment of tax; estimated tax; extensions;  
42 abatelements

43 A. Except as provided in subsection B, C or D of this section, the  
44 taxes levied under this article:

1           1. Are due and payable monthly in the form required by section 42-5018  
2 for the amount of the tax, to the department, on or before the twentieth day  
3 of the month next succeeding the month in which the tax accrues.

4           2. Are delinquent as follows:

5           (a) For taxpayers electing to file by mail, if not postmarked on or  
6 before the twenty-fifth day of that month or if not received by the  
7 department on or before the business day preceding the last business day of  
8 the month.

9           (b) For taxpayers electing to file and pay electronically in any  
10 month, if not received by the department on or before the last business day  
11 of the month.

12           (c) For all other taxpayers, if not received by the department on or  
13 before the business day preceding the last business day of the month.

14           B. The department, for any taxpayer whose estimated annual liability  
15 for taxes imposed by this article is between five hundred dollars and one  
16 thousand two hundred fifty dollars, may authorize such taxpayer to pay such  
17 taxes on a quarterly basis. The department, for any taxpayer whose estimated  
18 annual liability for taxes imposed by this article is five hundred dollars or  
19 less, may authorize such taxpayer to pay such taxes on an annual basis.

20           C. The department may require a taxpayer whose business is of a  
21 transient character to file the return and remit the taxes imposed by this  
22 article on a daily, a weekly or a transaction by transaction basis, and those  
23 returns and payments are due and payable on the date fixed by the department  
24 without a grace period otherwise allowed by this section. For the purposes  
25 of this subsection, "business of a transient character" means sales activity  
26 by a taxpayer not regularly engaged in selling within the state conducted  
27 from vehicles, portable stands, rented spaces, structures or booths, or  
28 concessions at fairs, carnivals, circuses, festivals or similar activities  
29 for not more than thirty consecutive days.

30           D. In 2010, 2011 and 2012, if a business entity under which a taxpayer  
31 reports and pays income tax under title 43 has an annual total tax liability  
32 under this article, article 6 of this chapter and chapter 6, article 3 of  
33 this title in calendar year 2010, 2011 or 2012 of one hundred thousand  
34 dollars or more, based on the actual tax liability in calendar year 2009,  
35 2010 or 2011, regardless of the number of offices at which the taxes imposed  
36 by this article, article 6 of this chapter or chapter 6, article 3 of this  
37 title are collected, or if the taxpayer can reasonably anticipate such  
38 liability in calendar year 2010, 2011 or 2012, the taxpayer shall report on a  
39 form prescribed by the department and pay an estimated tax payment in June,  
40 2010, 2011 or 2012. Thereafter, if the business entity under which a  
41 taxpayer reports and pays income tax under title 43 has an annual total tax  
42 liability under this article, article 6 of this chapter and chapter 6,  
43 article 3 of this title of one million dollars or more, based on the actual  
44 tax liability in the preceding calendar year, regardless of the number of  
45 offices at which the taxes imposed by this article, article 6 of this chapter  
46 or chapter 6, article 3 of this title are collected, or if the taxpayer can

1 reasonably anticipate such liability in the current year, the taxpayer shall  
2 report on a form prescribed by the department and pay an estimated tax  
3 payment each June. Any other taxpayer may voluntarily elect to pay the  
4 estimated tax payment pursuant to this subsection. The payment shall be made  
5 on or before June 20 and is delinquent if not postmarked on or before that  
6 date or if not received by the department on or before the business day  
7 preceding the last business day of June for those taxpayers electing to file  
8 by mail, or delinquent if not received by the department on the business day  
9 preceding the last business day of June for those taxpayers electing to file  
10 in person. The estimated tax paid shall be credited against the taxpayer's  
11 tax liability under this article, article 6 of this chapter and chapter 6,  
12 article 3 of this title for the month of June for the current calendar year.  
13 The estimated tax payment shall equal either:

14 1. One-half of the actual tax liability under this article plus  
15 one-half of any tax liability under article 6 of this chapter and chapter 6,  
16 article 3 of this title for May of the current calendar year.

17 2. The actual tax liability under this article plus any tax liability  
18 under article 6 of this chapter and chapter 6, article 3 of this title for  
19 the first fifteen days of June of the current calendar year.

20 E. The taxpayer shall prepare a return showing the amount of the tax  
21 for which the taxpayer is liable for the preceding month, and shall mail or  
22 deliver the return to the department in the same manner and time as  
23 prescribed for the payment of taxes in subsection A of this section. If the  
24 taxpayer fails to file the return in the manner and time as prescribed for  
25 the payment of taxes in subsection A of this section, the amount of the tax  
26 required to be shown on the return is subject to the penalty imposed pursuant  
27 to section 42-1125, subsection A, without any reduction for taxes paid on or  
28 before the due date of the return. The return shall be verified by the oath  
29 of the taxpayer or an authorized agent or as prescribed by the department  
30 pursuant to section 42-1105, subsection B.

31 F. Any person who is taxable under this article and who makes cash and  
32 credit sales shall report such cash and credit sales separately and upon  
33 making application may obtain from the department an extension of time for  
34 payment of taxes due on the credit sales. The extension shall be granted by  
35 the department under such rules as the department prescribes. When the  
36 extension is granted, the taxpayer shall thereafter include in each monthly  
37 report all collections made on such credit sales during the month next  
38 preceding and shall pay the taxes due at the time of filing such report.

39 G. The returns required under this article shall be made upon forms  
40 prescribed by the department **AND SHALL CAPTURE DATA WITH SUFFICIENT**  
41 **SPECIFICITY TO MEET THE NEEDS OF ALL TAXING JURISDICTIONS.**

42 H. The department, for good cause, may extend the time for making any  
43 return required by this article and may grant such reasonable additional time  
44 within which to make the return as it deems proper, but the time for filing  
45 the return shall not be extended beyond the first day of the third month next  
46 succeeding the regular due date of the return.

1 I. The department, with the approval of the attorney general, may  
2 abate small tax balances if the administration costs exceed the amount of tax  
3 due.

4 J. For the purposes of subsection D of this section, "taxpayer" means  
5 the business entity under which the business reports and pays state income  
6 taxes regardless of the number of offices at which the taxes imposed by this  
7 article, article 6 of this chapter or chapter 6, article 3 of this title are  
8 collected.

9 Sec. 8. Title 42, chapter 5, article 1, Arizona Revised Statutes, is  
10 amended by adding section 42-5015, to read:

11 42-5015. Online portal

12 ON OR BEFORE JANUARY 1, 2015, THE ONLINE PORTAL PRESCRIBED BY SECTION  
13 42-6001 SHALL BE MODIFIED SO THAT A TAXPAYER WHO IS REQUIRED TO PAY ANY  
14 TRANSACTION PRIVILEGE AND AFFILIATED EXCISE TAXES TO THIS STATE OR A COUNTY  
15 OR MUNICIPALITY MAY REPORT AND PAY THE REQUIRED TAX THROUGH THE ONLINE  
16 PORTAL. THE ONLINE PORTAL SHALL BE ADMINISTERED BY THE DEPARTMENT OF  
17 REVENUE. THE COSTS OF THE ONLINE PORTAL SHALL BE PAID BY THE CITIES AND  
18 TOWNS THAT DID NOT HAVE AN INTERGOVERNMENTAL CONTRACT OR AGREEMENT IN EFFECT  
19 AS OF JANUARY 1, 2013 WITH THE DEPARTMENT TO PROVIDE FOR UNIFIED OR  
20 COORDINATED LICENSING, COLLECTION AND AUDITING PROGRAMS. THE EXPANDED ONLINE  
21 PORTAL SHALL:

22 1. INCLUDE A SINGLE POINT FOR LICENSING, FILING A SINGLE RETURN AND  
23 PAYING TRANSACTION PRIVILEGE AND AFFILIATED EXCISE TAXES FOR ALL STATE,  
24 COUNTY AND MUNICIPAL TAXING JURISDICTIONS.

25 2. CONSOLIDATE DATA IN A MANNER COMPATIBLE WITH THE DATA SYSTEMS OF  
26 THE DEPARTMENT OF REVENUE.

27 3. CAPTURE DATA WITH SUFFICIENT SPECIFICITY TO MEET THE NEEDS OF THE  
28 TAXING JURISDICTIONS.

29 4. ALLOW FOR IDENTIFICATION OF THE CORRECT TAXING JURISDICTIONS AND  
30 TAX RATES BASED ON THE PLACE WHERE THE TRANSACTION IS SOURCED.

31 Sec. 9. Section 42-5029, Arizona Revised Statutes, is amended to read:

32 42-5029. Remission and distribution of monies; definition

33 A. The department shall deposit, pursuant to sections 35-146 and  
34 35-147, all revenues collected under this article and articles 4, 5 and 8 of  
35 this chapter pursuant to section 42-1116, separately accounting for:

36 1. Payments of estimated tax under section 42-5014, subsection D.

37 2. Revenues collected pursuant to section 42-5070.

38 3. Revenues collected under this article and article 5 of this chapter  
39 from and after June 30, 2000 from sources located on Indian reservations in  
40 this state.

41 4. Revenues collected pursuant to section 42-5010, subsection G and  
42 section 42-5155, subsection D.

43 B. The department shall credit payments of estimated tax to an  
44 estimated tax clearing account and each month shall transfer all monies in  
45 the estimated tax clearing account to a fund designated as the transaction  
46 privilege and severance tax clearing account. The department shall credit

1 all other payments to the transaction privilege and severance tax clearing  
2 account, separately accounting for the monies designated as distribution base  
3 under sections 42-5010, 42-5164, 42-5205 and 42-5353. Each month the  
4 department shall report to the state treasurer the amount of monies collected  
5 pursuant to this article and articles 4, 5 and 8 of this chapter.

6 C. On notification by the department, the state treasurer shall  
7 distribute the monies deposited in the transaction privilege and severance  
8 tax clearing account in the manner prescribed by this section and by sections  
9 42-5164, 42-5205 and 42-5353, after deducting warrants drawn against the  
10 account pursuant to sections 42-1118 and 42-1254.

11 D. Of the monies designated as distribution base the department shall:

12 1. Pay twenty-five per cent to the various incorporated municipalities  
13 in this state in proportion to their population to be used by the  
14 municipalities for any municipal purpose.

15 2. Pay 38.08 per cent to the counties in this state by averaging the  
16 following proportions:

17 (a) The proportion that the population of each county bears to the  
18 total state population.

19 (b) The proportion that the distribution base monies collected during  
20 the calendar month in each county under this article, section 42-5164,  
21 subsection B, section 42-5205, subsection B and section 42-5353 bear to the  
22 total distribution base monies collected under this article, section 42-5164,  
23 subsection B, section 42-5205, subsection B and section 42-5353 throughout  
24 the state for the calendar month.

25 3. Pay an additional 2.43 per cent to the counties in this state as  
26 follows:

27 (a) Average the following proportions:

28 (i) The proportion that the assessed valuation used to determine  
29 secondary property taxes of each county, after deducting that part of the  
30 assessed valuation that is exempt from taxation at the beginning of the month  
31 for which the amount is to be paid, bears to the total assessed valuations  
32 used to determine secondary property taxes of all the counties after  
33 deducting that portion of the assessed valuations that is exempt from  
34 taxation at the beginning of the month for which the amount is to be paid.  
35 Property of a city or town that is not within or contiguous to the municipal  
36 corporate boundaries and from which water is or may be withdrawn or diverted  
37 and transported for use on other property is considered to be taxable  
38 property in the county for purposes of determining assessed valuation in the  
39 county under this item.

40 (ii) The proportion that the distribution base monies collected during  
41 the calendar month in each county under this article, section 42-5164,  
42 subsection B, section 42-5205, subsection B and section 42-5353 bear to the  
43 total distribution base monies collected under this article, section 42-5164,  
44 subsection B, section 42-5205, subsection B and section 42-5353 throughout  
45 the state for the calendar month.

1 (b) If the proportion computed under subdivision (a) of this paragraph  
2 for any county is greater than the proportion computed under paragraph 2 of  
3 this subsection, the department shall compute the difference between the  
4 amount distributed to that county under paragraph 2 of this subsection and  
5 the amount that would have been distributed under paragraph 2 of this  
6 subsection using the proportion computed under subdivision (a) of this  
7 paragraph and shall pay that difference to the county from the amount  
8 available for distribution under this paragraph. Any monies remaining after  
9 all payments under this subdivision shall be distributed among the counties  
10 according to the proportions computed under paragraph 2 of this subsection.

11 4. After any distributions required by sections 42-5030, 42-5030.01,  
12 42-5031, 42-5032, 42-5032.01 and 42-5032.02, and after making any transfer to  
13 the water quality assurance revolving fund as required by section 49-282,  
14 subsection B, credit the remainder of the monies designated as distribution  
15 base to the state general fund. From this amount the legislature shall  
16 annually appropriate to:

17 (a) The department of revenue sufficient monies to administer and  
18 enforce this article and articles 5 and 8 of this chapter.

19 (b) The department of economic security monies to be used for the  
20 purposes stated in title 46, chapter 1.

21 (c) The firearms safety and ranges fund established by section 17-273,  
22 fifty thousand dollars derived from the taxes collected from the retail  
23 classification pursuant to section 42-5061 for the current fiscal year.

24 E. If approved by the qualified electors voting at a statewide general  
25 election, all monies collected pursuant to section 42-5010, subsection G and  
26 section 42-5155, subsection D shall be distributed each fiscal year pursuant  
27 to this subsection. The monies distributed pursuant to this subsection are  
28 in addition to any other appropriation, transfer or other allocation of  
29 public or private monies from any other source and shall not supplant,  
30 replace or cause a reduction in other school district, charter school,  
31 university or community college funding sources. The monies shall be  
32 distributed as follows:

33 1. If there are outstanding state school facilities revenue bonds  
34 pursuant to title 15, chapter 16, article 7, each month one-twelfth of the  
35 amount that is necessary to pay the fiscal year's debt service on outstanding  
36 state school improvement revenue bonds for the current fiscal year shall be  
37 transferred each month to the school improvement revenue bond debt service  
38 fund established by section 15-2084. The total amount of bonds for which  
39 these monies may be allocated for the payment of debt service shall not  
40 exceed a principal amount of eight hundred million dollars exclusive of  
41 refunding bonds and other refinancing obligations.

42 2. After any transfer of monies pursuant to paragraph 1 of this  
43 subsection, twelve per cent of the remaining monies collected during the  
44 preceding month shall be transferred to the technology and research  
45 initiative fund established by section 15-1648 to be distributed among the

1 universities for the purpose of investment in technology and research-based  
2 initiatives.

3 3. After the transfer of monies pursuant to paragraph 1 of this  
4 subsection, three per cent of the remaining monies collected during the  
5 preceding month shall be transferred to the workforce development account  
6 established in each community college district pursuant to section 15-1472  
7 for the purpose of investment in workforce development programs.

8 4. After transferring monies pursuant to paragraphs 1, 2 and 3 of this  
9 subsection, one-twelfth of the amount a community college that is owned,  
10 operated or chartered by a qualifying Indian tribe on its own Indian  
11 reservation would receive pursuant to section 15-1472, subsection D,  
12 paragraph 2 if it were a community college district shall be distributed each  
13 month to the treasurer or other designated depository of a qualifying Indian  
14 tribe. Monies distributed pursuant to this paragraph are for the exclusive  
15 purpose of providing support to one or more community colleges owned,  
16 operated or chartered by a qualifying Indian tribe and shall be used in a  
17 manner consistent with section 15-1472, subsection B. For the purposes of  
18 this paragraph, "qualifying Indian tribe" has the same meaning as defined in  
19 section 42-5031.01, subsection D.

20 5. After transferring monies pursuant to paragraphs 1, 2 and 3 of this  
21 subsection, one-twelfth of the following amounts shall be transferred each  
22 month to the department of education for the increased cost of basic state  
23 aid under section 15-971 due to added school days and associated teacher  
24 salary increases enacted in 2000:

- 25 (a) In fiscal year 2001-2002, \$15,305,900.
- 26 (b) In fiscal year 2002-2003, \$31,530,100.
- 27 (c) In fiscal year 2003-2004, \$48,727,700.
- 28 (d) In fiscal year 2004-2005, \$66,957,200.
- 29 (e) In fiscal year 2005-2006 and each fiscal year thereafter,  
30 \$86,280,500.

31 6. After transferring monies pursuant to paragraphs 1, 2 and 3 of this  
32 subsection, seven million eight hundred thousand dollars is appropriated each  
33 fiscal year, to be paid in monthly installments, to the department of  
34 education to be used for school safety as provided in section 15-154 and two  
35 hundred thousand dollars is appropriated each fiscal year, to be paid in  
36 monthly installments to the department of education to be used for the  
37 character education matching grant program as provided in section 15-154.01.

38 7. After transferring monies pursuant to paragraphs 1, 2 and 3 of this  
39 subsection, no more than seven million dollars may be appropriated by the  
40 legislature each fiscal year to the department of education to be used for  
41 accountability purposes as described in section 15-241 and title 15, chapter  
42 9, article 8.

43 8. After transferring monies pursuant to paragraphs 1, 2 and 3 of this  
44 subsection, one million five hundred thousand dollars is appropriated each  
45 fiscal year, to be paid in monthly installments, to the failing schools  
46 tutoring fund established by section 15-241.

1           9. After transferring monies pursuant to paragraphs 1, 2 and 3 of this  
2 subsection, twenty-five million dollars shall be transferred each fiscal year  
3 to the state general fund to reimburse the general fund for the cost of the  
4 income tax credit allowed by section 43-1072.01.

5           10. After the payment of monies pursuant to paragraphs 1 through 9 of  
6 this subsection, the remaining monies collected during the preceding month  
7 shall be transferred to the classroom site fund established by section  
8 15-977. The monies shall be allocated as follows in the manner prescribed by  
9 section 15-977:

10           (a) Forty per cent shall be allocated for teacher compensation based  
11 on performance.

12           (b) Twenty per cent shall be allocated for increases in teacher base  
13 compensation and employee related expenses.

14           (c) Forty per cent shall be allocated for maintenance and operation  
15 purposes.

16           F. The department shall credit the remainder of the monies in the  
17 transaction privilege and severance tax clearing account to the state general  
18 fund, subject to any distribution required by section 42-5030.01.

19           G. Notwithstanding subsection D of this section, if a court of  
20 competent jurisdiction finally determines that tax monies distributed under  
21 this section were illegally collected under this article or articles 5 and 8  
22 of this chapter and orders the monies to be refunded to the taxpayer, the  
23 department shall compute the amount of such monies that was distributed to  
24 each city, town and county under this section. ~~The department shall notify  
25 the state treasurer of that amount plus the proportionate share of additional  
26 allocated costs required to be paid to the taxpayer.~~ Each city's, town's and  
27 county's proportionate share of the costs shall be based on the amount of the  
28 original tax payment each municipality and county received. Each month the  
29 state treasurer shall reduce the amount otherwise distributable to the city,  
30 town and county under this section by one thirty-sixth of the total amount to  
31 be recovered from the city, town or county until the total amount has been  
32 recovered, but the monthly reduction for any city, town or county shall not  
33 exceed ten per cent of the full monthly distribution to that entity. The  
34 reduction shall begin for the first calendar month after the final  
35 disposition of the case and shall continue until the total amount, including  
36 interest and costs, has been recovered.

37           H. On receiving a certificate of default from the greater Arizona  
38 development authority pursuant to section 41-2257 or 41-2258 and to the  
39 extent not otherwise expressly prohibited by law, the state treasurer shall  
40 withhold from the next succeeding distribution of monies pursuant to this  
41 section due to the defaulting political subdivision the amount specified in  
42 the certificate of default and immediately deposit the amount withheld in the  
43 greater Arizona development authority revolving fund. The state treasurer  
44 shall continue to withhold and deposit the monies until the greater Arizona  
45 development authority certifies to the state treasurer that the default has  
46 been cured. In no event may the state treasurer withhold any amount that the

1 defaulting political subdivision certifies to the state treasurer and the  
2 authority as being necessary to make any required deposits then due for the  
3 payment of principal and interest on bonds of the political subdivision that  
4 were issued before the date of the loan repayment agreement or bonds and that  
5 have been secured by a pledge of distributions made pursuant to this section.

6 I. Except as provided by sections 42-5033 and 42-5033.01, the  
7 population of a county, city or town as determined by the most recent United  
8 States decennial census plus any revisions to the decennial census certified  
9 by the United States bureau of the census shall be used as the basis for  
10 apportioning monies pursuant to subsection D of this section.

11 J. Except as otherwise provided by this subsection, on notice from the  
12 department of revenue pursuant to section 42-6010, subsection B, the state  
13 treasurer shall withhold from the distribution of monies pursuant to this  
14 section to the affected city or town the amount of the penalty for business  
15 location municipal tax incentives provided by the city or town to a business  
16 entity that locates a retail business facility in the city or town. The  
17 state treasurer shall continue to withhold monies pursuant to this subsection  
18 until the entire amount of the penalty has been withheld. The state  
19 treasurer shall credit any monies withheld pursuant to this subsection to the  
20 state general fund as provided by subsection D, paragraph 4 of this section.  
21 The state treasurer shall not withhold any amount that the city or town  
22 certifies to the department of revenue and the state treasurer as being  
23 necessary to make any required deposits or payments for debt service on bonds  
24 or other long-term obligations of the city or town that were issued or  
25 incurred before the location incentives provided by the city or town.

26 K. On notice from the auditor general pursuant to section 9-626,  
27 subsection D, the state treasurer shall withhold from the distribution of  
28 monies pursuant to this section to the affected city the amount computed  
29 pursuant to section 9-626, subsection D. The state treasurer shall continue  
30 to withhold monies pursuant to this subsection until the entire amount  
31 specified in the notice has been withheld. The state treasurer shall credit  
32 any monies withheld pursuant to this subsection to the state general fund as  
33 provided by subsection D, paragraph 4 of this section.

34 L. For the purposes of this section, "community college district"  
35 means a community college district that is established pursuant to sections  
36 15-1402 and 15-1403 and that is a political subdivision of this state and,  
37 unless otherwise specified, includes a community college district established  
38 pursuant to section 15-1402.01 and a provisional community college district  
39 established pursuant to section 15-1409.

40 Sec. 10. Section 42-5032.01, Arizona Revised Statutes, is amended to  
41 read:

42 42-5032.01. Distribution of revenues for tourism and sports  
43 authority

44 A. Each month the state treasurer shall pay, from the amount  
45 designated as distribution base pursuant to section 42-5029, subsection D,  
46 the amount determined under subsection B of this section to the tourism and

1 sports authority for deposit in the authority's facility revenue clearing  
2 account established by section 5-834.

3 B. The amount to be paid under subsection A of this section is the  
4 total amount of state transaction privilege tax revenues received from  
5 persons conducting business under:

6 1. The retail, amusement and restaurant classifications at, or with  
7 respect to events held at, a multipurpose facility that is owned or operated  
8 by the authority pursuant to title 5, chapter 8.

9 2. The retail, amusement and restaurant classifications at, or with  
10 respect to, professional football contests that are held beginning July,  
11 2001 in a stadium located on the campus of an institution under the  
12 jurisdiction of the Arizona board of regents.

13 C. Each month the state treasurer shall pay, from the amount  
14 designated as distribution base pursuant to section 42-5029, subsection D,  
15 the total amount of state transaction privilege tax revenues received from  
16 persons conducting business under the prime contracting classification at a  
17 multipurpose facility that is owned or operated by the tourism and sports  
18 authority pursuant to title 5, chapter 8 for deposit in the authority's  
19 construction account established by section 5-833.

20 ~~D. The department shall report the amounts under subsections B and C~~  
21 ~~of this section to the state treasurer on or before the fifteenth day of each~~  
22 ~~month for payment in the following month.~~

23 Sec. 11. Section 42-5032.02, Arizona Revised Statutes, is amended to  
24 read:

25 42-5032.02. Distribution of revenues for city, town or county  
26 infrastructure improvements related to  
27 manufacturing facilities; definitions

28 A. Subject to subsection B of this section, from and after September  
29 30, 2013 through September 30, 2023, each month the state treasurer shall pay  
30 a city, town or county the amount determined under subsection C of this  
31 section for the purpose of funding up to eighty per cent of the cost of  
32 public infrastructure improvements for the benefit of a manufacturing  
33 facility.

34 B. The state treasurer shall not make any payments under subsection C  
35 of this section until both of the following apply:

36 1. Twenty-five per cent of the capital investment that is certified  
37 under subsection D of this section and that constitutes construction phase  
38 services, as defined in section 42-5075, has been made by the manufacturing  
39 facility.

40 2. From and after June 30, 2014.

41 C. The amount to be paid to a city, town or county under subsection A  
42 of this section is the total amount of state transaction privilege tax  
43 revenues collected under section 42-5010, subsection A from persons  
44 conducting business under section 42-5075 derived from contracts to construct  
45 buildings and associated improvements for the benefit of a manufacturing

1 facility. The total amount paid to all cities, towns and counties under this  
2 subsection shall not exceed a maximum of fifty million dollars.

3 D. Before the commencement of the construction of buildings and  
4 associated improvements for the benefit of a manufacturing facility that will  
5 require a city, town or county to make infrastructure improvements, the  
6 manufacturing facility shall file a sworn certification with the Arizona  
7 commerce authority, and submit a copy of this sworn certification to the  
8 applicable city, town or county, that the manufacturing facility agrees to  
9 either:

10 1. Make at least five hundred million dollars in capital investment if  
11 the manufacturing facility is located in a county that has a population of  
12 eight hundred thousand persons or more.

13 2. Make at least fifty million dollars in capital investment if the  
14 manufacturing facility is located in a county that has a population of less  
15 than eight hundred thousand persons.

16 E. The certification under subsection D of this section shall contain  
17 a sworn statement or certification, signed by an officer of the manufacturing  
18 facility under penalty of perjury, that the information contained is true and  
19 correct according to the best belief and knowledge of the person submitting  
20 the information to the department after a reasonable investigation of the  
21 facts.

22 F. On receipt of a sworn certification from a manufacturing facility  
23 pursuant to subsection D of this section and before the commencement of the  
24 construction of buildings and associated improvements for the benefit of a  
25 manufacturing facility that will require a city, town or county to make  
26 infrastructure improvements, the city, town or county shall enter into a  
27 written agreement with the department. This agreement and any amendments or  
28 changes to the agreement shall:

29 1. State the cost of the public infrastructure improvements and  
30 separately identify the particular improvements that will be made.

31 2. State that the monies received under this section will be used  
32 exclusively to pay for public infrastructure improvements that are necessary  
33 to support the activities of the manufacturing facility.

34 3. State that the city, town or county will pay a minimum of twenty  
35 per cent of the cost of the public infrastructure improvements with its own  
36 monies or with monies from the manufacturing facility.

37 4. State that the city, town or county will immediately notify the  
38 department when monies received under this section exceed eighty per cent of  
39 the cost of the infrastructure improvements and will return the amount of the  
40 excess to the state treasurer for deposit to the state general fund.

41 5. Stipulate the actual amount of the construction funding that will  
42 be derived from sources other than the state.

43 6. Identify the persons who will be prime contractors on the  
44 construction of buildings and associated improvements for the benefit of a  
45 manufacturing facility and state that each prime contractor has been notified

1 as to which portion of the contractor's income shall be separately identified  
2 to the department pursuant to section 42-5075, subsection H.

3 7. State that the city, town or county agrees that any amounts paid by  
4 the department to a prime contractor as identified under paragraph 6 of this  
5 subsection resulting from an audit adjustment or claim for credit or refund  
6 of taxes described in subsection C of this section shall be recovered by the  
7 department from the city, town or county by reducing the amount paid to the  
8 city, town or county under section 42-5029 from monies designated as  
9 distribution base in the month next succeeding the month in which the  
10 adjustment or claim is paid.

11 8. State that the city, town or county agrees that the department will  
12 use the amounts subject to any distribution required under subsection A of  
13 this section in calculating the maximum amount set by subsection C of this  
14 section.

15 9. State that the city, town or county agrees that if, on notification  
16 by the department, the state treasurer ceases payments because of the  
17 condition described in subsection G of this section, the city, town or county  
18 has no claim to additional payments if the department subsequently pays  
19 amounts to a prime contractor identified in an agreement with any city, town  
20 or county, as described in paragraph 6 of this subsection, due to an audit  
21 adjustment or claim for credit or refund of taxes described in subsection C  
22 of this section.

23 10. Provide any other information deemed necessary by the department.

24 G. On notification by the department, the state treasurer shall cease  
25 payments under subsection A of this section if either of the following  
26 occurs:

27 1. A city, town or county has received monies that meet or exceed  
28 eighty per cent of the cost of the public infrastructure improvements that  
29 are necessary to support the activities related to the manufacturing facility  
30 as described in the written agreement pursuant to subsection ~~E~~ F of this  
31 section.

32 2. The total amount subject to any distribution required under  
33 subsection A of this section has met the maximum amount set by subsection C  
34 of this section.

35 H. For the purposes of this section:

36 1. "Associated improvement" includes any public infrastructure  
37 improvement that is made for the benefit of the manufacturing facility  
38 outside of the parcel or parcels of real property where the manufacturing  
39 facility is located.

40 2. "Capital investment" means an expenditure to acquire, lease or  
41 improve property that is used for the benefit of a manufacturing facility,  
42 including land, buildings, machinery and fixtures.

43 3. "Manufacturing facility":

44 (a) Means an establishment THAT IS engaged in the mechanical, physical  
45 or chemical transformation or fabrication of materials, substances or  
46 components into new products in this state, and that is classified within

1 sections 31 through 33 inclusive of the 2007 edition of the north American  
2 industry classification system as published by the national technical  
3 information service of the United States department of commerce and ~~the~~  
4 ~~establishment~~ THAT agrees to either:

5 ~~(a)~~ (i) Make at least five hundred million dollars in capital  
6 investment if the manufacturing facility is located in a county that has a  
7 population of eight hundred thousand persons or more.

8 ~~(b)~~ (ii) Make at least fifty million dollars in capital investment if  
9 the manufacturing facility is located in a county that has a population of  
10 less than eight hundred thousand persons.

11 ~~Manufacturing facility~~

12 (b) Does not include mining, milling or smelting mineral ore or  
13 generating electricity.

14 4. "Population" means the population determined in the most recent  
15 United States decennial census or the most recent special census as provided  
16 in section 28-6532.

17 5. "Public infrastructure" means water facilities, wastewater  
18 facilities and roads that are necessary to support the activities of the  
19 manufacturing facility.

20 Sec. 12. Title 42, chapter 5, article 1, Arizona Revised Statutes, is  
21 amended by adding section 42-5039, to read:

22 42-5039. Sourcing of certain transactions involving tangible  
23 personal property; definitions

24 A. EXCEPT AS PROVIDED IN SECTION 42-5075, RETAIL SALES OF TANGIBLE  
25 PERSONAL PROPERTY SHALL BE SOURCED AS FOLLOWS:

26 1. TO THE SELLER'S BUSINESS LOCATION IF THE SELLER RECEIVES THE ORDER  
27 AT A BUSINESS LOCATION IN THIS STATE.

28 2. TO THE PURCHASER'S LOCATION IN THIS STATE IF THE SELLER RECEIVES  
29 THE ORDER AT A BUSINESS LOCATION OUTSIDE THIS STATE.

30 B. FOR THE PURPOSES OF THIS SECTION, AN ORDER IS RECEIVED WHEN ALL OF  
31 THE INFORMATION NECESSARY TO ACCEPT THE ORDER HAS BEEN RECEIVED BY OR ON  
32 BEHALF OF THE SELLER, REGARDLESS OF WHERE THE ORDER IS ACCEPTED OR APPROVED.  
33 THE PLACE OF BUSINESS OR RESIDENCE OF THE PURCHASER DOES NOT DETERMINE WHERE  
34 THE ORDER IS RECEIVED.

35 C. THE GROSS RECEIPTS FROM LEASING OR RENTING TANGIBLE PERSONAL  
36 PROPERTY SHALL BE SOURCED AS FOLLOWS:

37 1. TO THE LESSOR'S BUSINESS LOCATION IF THE LESSOR HAS A BUSINESS  
38 LOCATION IN THIS STATE.

39 2. TO THE LESSEE'S ADDRESS IF THE LESSOR DOES NOT HAVE A BUSINESS  
40 LOCATION IN THIS STATE. THE GROSS RECEIPTS ARE TAXABLE WHEN THE PROPERTY IS  
41 SHIPPED, DELIVERED OR OTHERWISE BROUGHT INTO THIS STATE FOR USE IN THIS  
42 STATE.

43 D. FOR THE PURPOSES OF THIS SECTION:

44 1. "LESSEE'S ADDRESS" MEANS THE RESIDENTIAL ADDRESS OF AN INDIVIDUAL  
45 LESSEE AND THE PRIMARY BUSINESS ADDRESS OF ANY OTHER LESSEE.

1           2. "LESSOR'S BUSINESS LOCATION" MEANS THE BUSINESS ADDRESS THAT  
2 APPEARS ON THE LESSOR'S TRANSACTION PRIVILEGE TAX LICENSE.

3           Sec. 13. Section 42-5061, Arizona Revised Statutes, is amended to  
4 read:

5           42-5061. Retail classification; definitions

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

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

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

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

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

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

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

28           7. The sale of stocks and bonds.

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

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

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

36           11. Prescription eyeglasses or contact lenses.

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

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

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

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

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

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

13           18. Food and drink to a person ~~who~~ THAT is engaged in A business that 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 precious metal bullion and monetized bullion to the  
25 ultimate consumer, but the sale of coins or other forms of money for  
26 manufacture into jewelry or works of art is subject to the tax. For the  
27 purposes of this paragraph:

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

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

35           22. Motor vehicle fuel and use fuel that are subject to a tax imposed  
36 under title 28, chapter 16, article 1, sales of use fuel to a holder of a  
37 valid single trip use fuel tax permit issued under section 28-5739, sales of  
38 aviation fuel that are subject to the tax imposed under section 28-8344 and  
39 sales of jet fuel that are subject to the tax imposed under article 8 of this  
40 chapter.

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

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

- 1           25. Tangible personal property sold to:
- 2           (a) A qualifying hospital as defined in section 42-5001.
- 3           (b) A qualifying health care organization as defined in section
- 4 42-5001 if the tangible personal property is used by the organization solely
- 5 to provide health and medical related educational and charitable services.
- 6           (c) A qualifying health care organization as defined in section
- 7 42-5001 if the organization is dedicated to providing educational,
- 8 therapeutic, rehabilitative and family medical education training for blind,
- 9 visually impaired and multihandicapped children from the time of birth to age
- 10 twenty-one.
- 11           (d) A qualifying community health center as defined in section
- 12 42-5001.
- 13           (e) A nonprofit charitable organization that has qualified under
- 14 section 501(c)(3) of the internal revenue code and that regularly serves
- 15 meals to the needy and indigent on a continuing basis at no cost.
- 16           (f) For taxable periods beginning from and after June 30, 2001, a
- 17 nonprofit charitable organization that has qualified under section 501(c)(3)
- 18 of the internal revenue code and that provides residential apartment housing
- 19 for low income persons over sixty-two years of age in a facility that
- 20 qualifies for a federal housing subsidy, if the tangible personal property is
- 21 used by the organization solely to provide residential apartment housing for
- 22 low income persons over sixty-two years of age in a facility that qualifies
- 23 for a federal housing subsidy.
- 24           26. Magazines or other periodicals or other publications by this state
- 25 to encourage tourist travel.
- 26           27. Tangible personal property sold to a person that is subject to tax
- 27 under this article by reason of being engaged in business classified under
- 28 the prime contracting classification under section 42-5075, ~~or~~ or to a
- 29 subcontractor working under the control of a prime contractor that is subject
- 30 to tax under article 1 of this chapter, if the property so sold is any of the
- 31 following:
- 32           (a) Incorporated or fabricated by the person into any real property,
- 33 structure, project, development or improvement as part of the business.
- 34           (b) Used in environmental response or remediation activities under
- 35 section 42-5075, subsection B, paragraph 6.
- 36           28. The sale of a motor vehicle to:
- 37           (a) A nonresident of this state if the purchaser's state of residence
- 38 does not allow a corresponding use tax exemption to the tax imposed by
- 39 article 1 of this chapter and if the nonresident has secured a special ninety
- 40 day nonresident registration permit for the vehicle as prescribed by sections
- 41 28-2154 and 28-2154.01.
- 42           (b) An enrolled member of an Indian tribe who resides on the Indian
- 43 reservation established for that tribe.
- 44           29. Tangible personal property purchased in this state by a nonprofit
- 45 charitable organization that has qualified under section 501(c)(3) of the
- 46 United States internal revenue code and that engages in and uses such

1 property exclusively in programs for mentally or physically handicapped  
2 persons if the programs are exclusively for training, job placement,  
3 rehabilitation or testing.

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

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

15 32. Sales of tangible personal property by a nonprofit organization  
16 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),  
17 501(c)(7) or 501(c)(8) of the internal revenue code if the organization  
18 sponsors or operates a rodeo featuring primarily farm and ranch animals and  
19 no part of the organization's net earnings inures to the benefit of any  
20 private shareholder or individual.

21 33. Sales of seeds, seedlings, roots, bulbs, cuttings and other  
22 propagative material to persons who use those items to commercially produce  
23 agricultural, horticultural, viticultural or floricultural crops in this  
24 state.

25 34. Machinery, equipment, technology or related supplies that are only  
26 useful to assist a person who is physically disabled as defined in section  
27 46-191, has a developmental disability as defined in section 36-551 or has a  
28 head injury as defined in section 41-3201 to be more independent and  
29 functional.

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

33 ~~36.~~ 35. Sales of natural gas or liquefied petroleum gas used to propel  
34 a motor vehicle.

35 ~~37.~~ 36. Paper machine clothing, such as forming fabrics and dryer  
36 felts, sold to a paper manufacturer and directly used or consumed in paper  
37 manufacturing.

38 ~~38.~~ 37. Coal, petroleum, coke, natural gas, virgin fuel oil and  
39 electricity sold to a qualified environmental technology manufacturer,  
40 producer or processor as defined in section 41-1514.02 and directly used or  
41 consumed in the generation or provision of on-site power or energy solely for  
42 environmental technology manufacturing, producing or processing or  
43 environmental protection. This paragraph shall apply for twenty full  
44 consecutive calendar or fiscal years from the date the first paper  
45 manufacturing machine is placed in service. In the case of an environmental  
46 technology manufacturer, producer or processor who does not manufacture

1 paper, the time period shall begin with the date the first manufacturing,  
2 processing or production equipment is placed in service.

3 ~~39.~~ 38. Sales of liquid, solid or gaseous chemicals used in  
4 manufacturing, processing, fabricating, mining, refining, metallurgical  
5 operations, research and development and, beginning on January 1, 1999,  
6 printing, if using or consuming the chemicals, alone or as part of an  
7 integrated system of chemicals, involves direct contact with the materials  
8 from which the product is produced for the purpose of causing or permitting a  
9 chemical or physical change to occur in the materials as part of the  
10 production process. This paragraph does not include chemicals that are used  
11 or consumed in activities such as packaging, storage or transportation but  
12 does not affect any deduction for such chemicals that is otherwise provided  
13 by this section. For the purposes of this paragraph, "printing" means a  
14 commercial printing operation and includes job printing, engraving,  
15 embossing, copying and bookbinding.

16 ~~40.~~ 39. Through December 31, 1994, personal property liquidation  
17 transactions, conducted by a personal property liquidator. From and after  
18 December 31, 1994, personal property liquidation transactions shall be  
19 taxable under this section provided that nothing in this subsection shall be  
20 construed to authorize the taxation of casual activities or transactions  
21 under this chapter. For the purposes of this paragraph:

22 (a) "Personal property liquidation transaction" means a sale of  
23 personal property made by a personal property liquidator acting solely on  
24 behalf of the owner of the personal property sold at the dwelling of the  
25 owner or on the death of any owner, on behalf of the surviving spouse, if  
26 any, any devisee or heir or the personal representative of the estate of the  
27 deceased, if one has been appointed.

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

30 ~~41.~~ 40. Sales of food, drink and condiment for consumption within the  
31 premises of any prison, jail or other institution under the jurisdiction of  
32 the state department of corrections, the department of public safety, the  
33 department of juvenile corrections or a county sheriff.

34 ~~42.~~ 41. A motor vehicle and any repair and replacement parts and  
35 tangible personal property becoming a part of such motor vehicle sold to a  
36 motor carrier who is subject to a fee prescribed in title 28, chapter 16,  
37 article 4 and who is engaged in the business of leasing or renting such  
38 property.

39 ~~43.~~ 42. Livestock and poultry feed, salts, vitamins and other  
40 additives for livestock or poultry consumption that are sold to persons who  
41 are engaged in producing livestock, poultry, or livestock or poultry products  
42 or who are engaged in feeding livestock or poultry commercially. For the  
43 purposes of this paragraph, "poultry" includes ratites.

44 ~~44.~~ 43. Sales of implants used as growth promotants and injectable  
45 medicines, not already exempt under paragraph 8 of this subsection, for  
46 livestock or poultry owned by or in possession of persons who are engaged in

1 producing livestock, poultry, or livestock or poultry products or who are  
2 engaged in feeding livestock or poultry commercially. For the purposes of  
3 this paragraph, "poultry" includes ratites.

4 ~~45-~~ 44. Sales of motor vehicles at auction to nonresidents of this  
5 state for use outside this state if the vehicles are shipped or delivered out  
6 of this state, regardless of where title to the motor vehicles passes or its  
7 free on board point.

8 ~~46-~~ 45. Tangible personal property sold to a person engaged in  
9 business and subject to tax under the transient lodging classification if the  
10 tangible personal property is a personal hygiene item or articles used by  
11 human beings for food, drink or condiment, except alcoholic beverages, that  
12 are furnished without additional charge to and intended to be consumed by the  
13 transient during the transient's occupancy.

14 ~~47-~~ 46. Sales of alternative fuel, as defined in section 1-215, to a  
15 used oil fuel burner who has received a permit to burn used oil or used oil  
16 fuel under section 49-426 or 49-480.

17 ~~48-~~ 47. Sales of materials that are purchased by or for publicly  
18 funded libraries including school district libraries, charter school  
19 libraries, community college libraries, state university libraries or  
20 federal, state, county or municipal libraries for use by the public as  
21 follows:

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

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

24 ~~49-~~ 48. Tangible personal property sold to a commercial airline and  
25 consisting of food, beverages and condiments and accessories used for serving  
26 the food and beverages, if those items are to be provided without additional  
27 charge to passengers for consumption in flight. For the purposes of this  
28 paragraph, "commercial airline" means a person holding a federal certificate  
29 of public convenience and necessity or foreign air carrier permit for air  
30 transportation to transport persons, property or United States mail in  
31 intrastate, interstate or foreign commerce.

32 ~~50-~~ 49. Sales of alternative fuel vehicles if the vehicle was  
33 manufactured as a diesel fuel vehicle and converted to operate on alternative  
34 fuel and equipment that is installed in a conventional diesel fuel motor  
35 vehicle to convert the vehicle to operate on an alternative fuel, as defined  
36 in section 1-215.

37 ~~51-~~ 50. Sales of any spirituous, vinous or malt liquor by a person  
38 that is licensed in this state as a wholesaler by the department of liquor  
39 licenses and control pursuant to title 4, chapter 2, article 1.

40 ~~52-~~ 51. Sales of tangible personal property to be incorporated or  
41 installed as part of environmental response or remediation activities under  
42 section 42-5075, subsection B, paragraph 6.

43 ~~53-~~ 52. Sales of tangible personal property by a nonprofit  
44 organization that is exempt from taxation under section 501(c)(6) of the  
45 internal revenue code if the organization produces, organizes or promotes  
46 cultural or civic related festivals or events and no part of the

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

3 ~~54.~~ 53. Through August 31, 2014, sales of Arizona centennial  
4 medallions by the historical advisory commission.

5 ~~55.~~ 54. Application services that are designed to assess or test  
6 student learning or to promote curriculum design or enhancement purchased by  
7 or for any school district, charter school, community college or state  
8 university. For the purposes of this paragraph:

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

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

14 ~~56.~~ 55. Sales of motor vehicle fuel and use fuel to a qualified  
15 business under section 41-1516 for off-road use in harvesting, processing or  
16 transporting qualifying forest products removed from qualifying projects as  
17 defined in section 41-1516.

18 ~~57.~~ 56. Sales of repair parts installed in equipment used directly by  
19 a qualified business under section 41-1516 in harvesting, processing or  
20 transporting qualifying forest products removed from qualifying projects as  
21 defined in section 41-1516.

22 ~~58.~~ 57. Sales or other transfers of renewable energy credits or any  
23 other unit created to track energy derived from renewable energy resources.  
24 For the purposes of this paragraph, "renewable energy credit" means a unit  
25 created administratively by the corporation commission or governing body of a  
26 public power utility to track kilowatt hours of electricity derived from a  
27 renewable energy resource or the kilowatt hour equivalent of conventional  
28 energy resources displaced by distributed renewable energy resources.

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

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

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

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

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

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

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

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

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

26           (b) Any foreign government.

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

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

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

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

43           11. Buses or other urban mass transit vehicles ~~which~~ THAT are used  
44 directly to transport persons or property for hire or pursuant to a  
45 governmentally adopted and controlled urban mass transportation program and  
46 ~~which~~ THAT are sold to bus companies holding a federal certificate of

1 convenience and necessity or operated by any city, town or other governmental  
2 entity or by any person contracting with such governmental entity as part of  
3 a governmentally adopted and controlled program to provide urban mass  
4 transportation.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22 2. Janitorial equipment and hand tools.

23 3. Office equipment, furniture and supplies.

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

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

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

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

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

36 D. In addition to the deductions from the tax base prescribed by  
37 subsection A of this section, there shall be deducted from the tax base the  
38 gross proceeds of sales or gross income derived from sales of machinery,  
39 equipment, materials and other tangible personal property used directly and  
40 predominantly to construct a qualified environmental technology  
41 manufacturing, producing or processing facility as described in section  
42 41-1514.02. This subsection applies for ten full consecutive calendar or  
43 fiscal years after the start of initial construction.

44 E. In computing the tax base, gross proceeds of sales or gross income  
45 from retail sales of heavy trucks and trailers does not include any amount

1 attributable to federal excise taxes imposed by 26 United States Code section  
2 4051.

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

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

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

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

- 27 1. Transporting classification.
- 28 2. Utilities classification.
- 29 3. Telecommunications classification.
- 30 4. Pipeline classification.
- 31 5. Private car line classification.
- 32 6. Publication classification.
- 33 7. Job printing classification.
- 34 8. Prime contracting classification.
- 35 ~~9. Owner builder sales classification.~~
- 36 ~~10.~~ 9. Restaurant classification.

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

- 39 1. Sales made directly to the United States government or its  
40 departments or agencies by a manufacturer, modifier, assembler or repairer.
- 41 2. Sales made directly to a manufacturer, modifier, assembler or  
42 repairer if such sales are of any ingredient or component part of products  
43 sold directly to the United States government or its departments or agencies  
44 by the manufacturer, modifier, assembler or repairer.
- 45 3. Overhead materials or other tangible personal property that is used  
46 in performing a contract between the United States government and a

1 manufacturer, modifier, assembler or repairer, including property used in  
2 performing a subcontract with a government contractor who is a manufacturer,  
3 modifier, assembler or repairer, to which title passes to the government  
4 under the terms of the contract or subcontract.

5 4. Sales of overhead materials or other tangible personal property to  
6 a manufacturer, modifier, assembler or repairer if the gross proceeds of  
7 sales or gross income derived from the property by the manufacturer,  
8 modifier, assembler or repairer will be exempt under paragraph 3 of this  
9 subsection.

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

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

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

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

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

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

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

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

41 Q. Retail sales of prepaid calling cards or prepaid authorization  
42 numbers for telecommunications services, including sales of reauthorization  
43 of a prepaid card or authorization number, are subject to tax under this  
44 section.

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

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

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

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

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

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

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

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

42           V. For the purposes of this section:

43           1. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

42 Sec. 14. Section 42-5071, Arizona Revised Statutes, is amended to  
43 read:

44 **42-5071. Personal property rental classification**

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

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

7           2. Activities engaged in by the Arizona exposition and state fair  
8 board or county fair commissions in connection with events sponsored by such  
9 entities.

10          3. Leasing or renting tangible personal property by a parent  
11 corporation to a subsidiary corporation or by a subsidiary corporation to  
12 another subsidiary of the same parent corporation if taxes were paid under  
13 this chapter on the gross proceeds or gross income accruing from the initial  
14 sale of the tangible personal property. For the purposes of this paragraph,  
15 "subsidiary" means a corporation of which at least eighty per cent of the  
16 voting shares are owned by the parent corporation.

17          4. Operating coin-operated washing, drying and dry cleaning machines  
18 or coin-operated car washing machines at establishments for the use of such  
19 machines.

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

25          6. Leasing or renting aircraft, flight simulators or similar training  
26 equipment to students or staff by nonprofit, accredited educational  
27 institutions that offer associate or baccalaureate degrees in aviation or  
28 aerospace related fields.

29          7. Leasing or renting photographs, transparencies or other creative  
30 works used by this state on internet ~~web-sites~~ WEBSITES, in magazines or in  
31 other publications that encourage tourism.

32           B. The tax base for the personal property rental classification is the  
33 gross proceeds of sales or gross income derived from the business, but the  
34 gross proceeds of sales or gross income derived from the following shall be  
35 deducted from the tax base:

36          1. Reimbursements by the lessee to the lessor of a motor vehicle for  
37 payments by the lessor of the applicable fees and taxes imposed by sections  
38 28-2003, 28-2352, 28-2402, 28-2481 and 28-5801, title 28, chapter 15,  
39 article 2 and article IX, section 11, Constitution of Arizona, to the extent  
40 such amounts are separately identified as such fees and taxes and are billed  
41 to the lessee.

42          2. Leases or rentals of tangible personal property ~~which~~ THAT, if it  
43 had been purchased instead of leased or rented by the lessee, would have been  
44 exempt under:

45           (a) Section 42-5061, subsection A, paragraph 8, 9, 12, 13, 25, 29, ~~50~~  
46 ~~49~~ or ~~55~~ 54.

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

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

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

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

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

8 3. 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 and sales  
11 of aviation fuel that are subject to the tax imposed under section 28-8344.

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

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

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

20 D. In computing the tax base, the gross proceeds of sales or gross  
21 income from the lease or rental of a motor vehicle does not include any  
22 amount attributable to the car rental surcharge under section 28-5810 or  
23 48-4234.

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

32 Sec. 15. Section 42-5075, Arizona Revised Statutes, is amended to  
33 read:

34 42-5075. Prime contracting classification; exemptions;  
35 definitions

36 A. The prime contracting classification is comprised of the business  
37 of prime contracting and dealership of manufactured buildings. Sales for  
38 resale to another dealership of manufactured buildings are not subject to  
39 tax. Sales for resale do not include sales to a lessor of manufactured  
40 buildings. The sale of a used manufactured building is not taxable under  
41 this chapter. The proceeds from alteration and repairs to a used  
42 manufactured building are taxable under this section.

43 B. The tax base for the prime contracting classification is sixty-five  
44 per cent of the gross proceeds of sales or gross income derived from the  
45 business. The following amounts shall be deducted from the gross proceeds of  
46 sales or gross income before computing the tax base:

- 1           1. The sales price of land, which shall not exceed the fair market  
2 value.
- 3           2. Sales and installation of groundwater measuring devices required  
4 under section 45-604 and groundwater monitoring wells required by law,  
5 including monitoring wells installed for acquiring information for a permit  
6 required by law.
- 7           3. The sales price of furniture, furnishings, fixtures, appliances and  
8 attachments that are not incorporated as component parts of or attached to a  
9 manufactured building or the setup site. The sale of such items may be  
10 subject to the taxes imposed by article 1 of this chapter separately and  
11 distinctly from the sale of the manufactured building.
- 12           4. The gross proceeds of sales or gross income received from a  
13 contract entered into for the construction, ~~alteration, repair,~~ addition,  
14 subtraction, improvement, movement, wrecking or demolition of any building,  
15 highway, road, railroad, excavation, manufactured building or other  
16 structure, project, development or improvement located in a military reuse  
17 zone for providing aviation or aerospace services or for a manufacturer,  
18 assembler or fabricator of aviation or aerospace products within an active  
19 military reuse zone after the zone is initially established or renewed under  
20 section 41-1531. To be eligible to qualify for this deduction, before  
21 beginning work under the contract, the prime contractor must have applied for  
22 a letter of qualification from the department of revenue.
- 23           5. The gross proceeds of sales or gross income derived from a contract  
24 to construct a qualified environmental technology manufacturing, producing or  
25 processing facility, as described in section 41-1514.02, and from subsequent  
26 construction and installation contracts that begin within ten years after the  
27 start of initial construction. To qualify for this deduction, before  
28 beginning work under the contract, the prime contractor must obtain a letter  
29 of qualification from the department of revenue. This paragraph shall apply  
30 for ten full consecutive calendar or fiscal years after the start of initial  
31 construction.
- 32           6. The gross proceeds of sales or gross income from a contract to  
33 provide for one or more of the following actions, or a contract for site  
34 preparation, constructing, furnishing or installing machinery, equipment or  
35 other tangible personal property, including structures necessary to protect  
36 exempt incorporated materials or installed machinery or equipment, and  
37 tangible personal property incorporated into the project, to perform one or  
38 more of the following actions in response to a release or suspected release  
39 of a hazardous substance, pollutant or contaminant from a facility to the  
40 environment, unless the release was authorized by a permit issued by a  
41 governmental authority:
- 42           (a) Actions to monitor, assess and evaluate such a release or a  
43 suspected release.
- 44           (b) Excavation, removal and transportation of contaminated soil and  
45 its treatment or disposal.

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

4 (d) Pumping and treatment or in situ treatment of contaminated  
5 groundwater or surface water to reduce the concentration or toxicity of a  
6 contaminant.

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

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

16 7. The gross proceeds of sales or gross income that is derived from a  
17 contract entered into for the installation, assembly, repair or maintenance  
18 of machinery, equipment or other tangible personal property that is deducted  
19 from the tax base of the retail classification pursuant to section 42-5061,  
20 subsection B, or that is exempt from use tax pursuant to section 42-5159,  
21 subsection B, and that does not become a permanent attachment to a building,  
22 highway, road, railroad, excavation or manufactured building or other  
23 structure, project, development or improvement. If the ownership of the  
24 realty is separate from the ownership of the machinery, equipment or tangible  
25 personal property, the determination as to permanent attachment shall be made  
26 as if the ownership were the same. The deduction provided in this paragraph  
27 does not include gross proceeds of sales or gross income from that portion of  
28 any contracting activity that consists of the development of, or modification  
29 to, real property in order to facilitate the installation, assembly, repair,  
30 maintenance or removal of machinery, equipment or other tangible personal  
31 property that is deducted from the tax base of the retail classification  
32 pursuant to section 42-5061, subsection B or that is exempt from use tax  
33 pursuant to section 42-5159, subsection B. For the purposes of this  
34 paragraph, "permanent attachment" means at least one of the following:

35 (a) To be incorporated into real property.

36 (b) To become so affixed to real property that it becomes a part of  
37 the real property.

38 (c) To be so attached to real property that removal would cause  
39 substantial damage to the real property from which it is removed.

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 or 29.

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

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

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

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

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

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

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

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

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

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

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

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

1 construction contract for the project. For the purposes of this paragraph,  
2 "research infrastructure" has the same meaning prescribed in section 15-1670.

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

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

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

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

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

28 20. THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM A CONTRACT  
29 WITH THE OWNER OF REAL PROPERTY FOR THE MAINTENANCE, REPAIR OR REPLACEMENT OF  
30 EXISTING PROPERTY IF THE CONTRACT DOES NOT INCLUDE MODIFICATION ACTIVITIES.  
31 FOR THE PURPOSES OF THIS PARAGRAPH, EACH CONTRACT OR PROJECT IS INDEPENDENT  
32 OF ANOTHER CONTRACT. A CONTRACTOR THAT HAS GROSS PROCEEDS OF SALES OR GROSS  
33 INCOME DERIVED FROM A CONTRACT THAT IS NOT SUBJECT TO TAX UNDER THIS  
34 PARAGRAPH IS SUBJECT TO TAX ON A CONTRACT THAT INCLUDES MODIFICATION  
35 ACTIVITIES.

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

38 1. A prime contractor may establish entitlement to the deduction by  
39 both:

40 (a) Marking the invoice for the transaction to indicate that the gross  
41 proceeds of sales or gross income derived from the transaction was deducted  
42 from the base.

43 (b) Obtaining a certificate executed by the purchaser indicating the  
44 name and address of the purchaser, the precise nature of the business of the  
45 purchaser, the purpose for which the purchase was made, the necessary facts  
46 to establish the deductibility of the property under section 42-5061,

1 subsection B, and a certification that the person executing the certificate  
2 is authorized to do so on behalf of the purchaser. The certificate may be  
3 disregarded if the prime contractor has reason to believe that the  
4 information contained in the certificate is not accurate or complete.

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

8 3. The department may prescribe a form for the certificate described  
9 in paragraph 1, subdivision (b) of this subsection. The department may also  
10 adopt rules that describe the transactions with respect to which a person is  
11 not entitled to rely solely on the information contained in the certificate  
12 provided in paragraph 1, subdivision (b) of this subsection but must instead  
13 obtain such additional information as required in order to be entitled to the  
14 deduction.

15 4. If a prime contractor is entitled to a deduction by complying with  
16 paragraph 1 of this subsection, the department may require the purchaser who  
17 caused the execution of the certificate to establish the accuracy and  
18 completeness of the information required to be contained in the certificate  
19 that would entitle the prime contractor to the deduction. If the purchaser  
20 cannot establish the accuracy and completeness of the information, the  
21 purchaser is liable in an amount equal to any tax, penalty and interest that  
22 the prime contractor would have been required to pay under article 1 of this  
23 chapter if the prime contractor had not complied with paragraph 1 of this  
24 subsection. Payment of the amount under this paragraph exempts the purchaser  
25 from liability for any tax imposed under article 4 of this chapter. The  
26 amount shall be treated as a transaction privilege tax to the purchaser and  
27 as tax revenues collected from the prime contractor in order to designate the  
28 distribution base for purposes of section 42-5029.

29 D. Subcontractors or others who perform services in respect to any  
30 improvement, building, highway, road, railroad, excavation, manufactured  
31 building or other structure, project, development or improvement are not  
32 subject to tax if they can demonstrate that the job was within the control of  
33 a prime contractor or contractors or a dealership of manufactured buildings  
34 and that the prime contractor or dealership is liable for the tax on the  
35 gross income, gross proceeds of sales or gross receipts attributable to the  
36 job and from which the subcontractors or others were paid.

37 E. Amounts received by a contractor for a project are excluded from  
38 the contractor's gross proceeds of sales or gross income derived from the  
39 business if the person who hired the contractor executes and provides a  
40 certificate to the contractor stating that the person providing the  
41 certificate is a prime contractor and is liable for the tax under article 1  
42 of this chapter. The department shall prescribe the form of the certificate.  
43 If the contractor has reason to believe that the information contained on the  
44 certificate is erroneous or incomplete, the department may disregard the  
45 certificate. If the person who provides the certificate is not liable for  
46 the tax as a prime contractor, that person is nevertheless deemed to be the

1 prime contractor in lieu of the contractor and is subject to the tax under  
2 this section on the gross receipts or gross proceeds received by the  
3 contractor.

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

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

15 H. For the purposes of section 42-5032.02, from and after September  
16 30, 2013, the department shall separately account for revenues reported and  
17 collected under the prime contracting classification from any prime  
18 contractor engaged in the construction of any buildings and associated  
19 improvements that are for the benefit of a manufacturing facility. For the  
20 purposes of this subsection, "associated improvements" and "manufacturing  
21 facility" have the same meanings prescribed in section 42-5032.02.

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

32 J. The gross proceeds of sales or gross income derived from  
33 landscaping activities are subject to tax under this section. Landscaping  
34 includes installing lawns, grading or leveling ground, installing gravel or  
35 boulders, planting trees and other plants, felling trees, removing or  
36 mulching tree stumps, removing other imbedded plants, building or modifying  
37 irrigation berms, repairing sprinkler or watering systems, installing  
38 railroad ties and installing underground sprinkler or watering systems.

39 K. The portion of gross proceeds of sales or gross income attributable  
40 to the actual direct costs of providing architectural or engineering services  
41 that are incorporated in a contract is not subject to tax under this section.  
42 For the purposes of this subsection, "direct costs" means the portion of the  
43 actual costs that are directly expended in providing architectural or  
44 engineering services.

45 L. Operating a landfill or a solid waste disposal facility is not  
46 subject to taxation under this section, including filling, compacting and

1 creating vehicle access to and from cell sites within the landfill.  
2 Constructing roads to a landfill or solid waste disposal facility and  
3 constructing cells within a landfill or solid waste disposal facility may be  
4 deemed prime contracting under this section.

5 M. The following apply ~~to~~ IN DETERMINING THE TAXABLE SITUS OF SALES OF  
6 manufactured buildings:

7 1. For sales in this state where the ~~dealership of~~ manufactured  
8 ~~buildings~~ BUILDING DEALER contracts to deliver the building to a setup site  
9 or to perform the setup in this state, the taxable situs is the setup site.

10 2. For sales in this state where the ~~dealership of~~ manufactured  
11 ~~buildings~~ BUILDING DEALER does not contract to deliver the building to a  
12 setup site or does not perform the setup, the taxable situs is the location  
13 of the dealership where the building is delivered to the buyer.

14 3. For sales in this state where the dealership of manufactured  
15 buildings contracts to deliver the building to a setup site that is outside  
16 this state, the situs is outside this state and the transaction is excluded  
17 from tax.

18 N. The gross proceeds of sales or gross income attributable to a  
19 ~~separate,~~ written CONTRACT FOR design phase services ~~contract~~ or professional  
20 services ~~contract~~, executed before modification begins AND WITH TERMS,  
21 CONDITIONS AND PRICING OF ALL OF THESE SERVICES SEPARATELY STATED IN THE  
22 CONTRACT FROM THOSE FOR CONSTRUCTION PHASE SERVICES, is not subject to tax  
23 under this section, regardless of whether the services are provided  
24 sequential to or concurrent with prime contracting activities that are  
25 subject to tax under this section. This subsection does not include the  
26 gross proceeds of sales or gross income attributable to construction phase  
27 services. For the purposes of this subsection:

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

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

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

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

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

44 (ii) The amount of an adjustment, if any, to the guaranteed maximum  
45 price as set in the contract for modification work. For the purposes of this  
46 item, "guaranteed maximum price" means the amount guaranteed to be the

1 maximum amount due to a prime contractor for the performance of all  
2 modification work for the project.

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

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

10 (e) Inspection to determine the dates of substantial completion or  
11 final completion.

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

18 (g) Preparation of status reports after modification work has begun  
19 detailing the progress of work performed, including preparation of any of the  
20 following:

21 (i) Master schedule updates.

22 (ii) Modification work cash flow projection updates.

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

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

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

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

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

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

35 2. "Design phase services" means services for developing and  
36 completing a design for a project that are not construction phase services,  
37 including the following:

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

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

44 (c) Preparing drawings and specifications for architectural program  
45 documents, schematic design documents, design development documents,

1 modification work documents or documents that identify the scope of or  
2 materials for the project.

3 (d) Preparing an initial schedule for the project, excluding the  
4 preparation of updates to the master schedule after modification work has  
5 begun.

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

9 (i) Labor, materials, machinery and equipment, tools, water, heat,  
10 utilities, transportation and other facilities and services used in the  
11 execution and completion of modification work, regardless of whether they are  
12 temporary or permanent or whether they are incorporated in the  
13 modifications.

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

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

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

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

23 (vi) Any bond and insurance premiums.

24 (vii) Any applicable taxes.

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

27 (f) Reviewing and evaluating cost estimates and project documents to  
28 prepare recommendations on site use, site improvements, selection of  
29 materials, building systems and equipment, modification feasibility,  
30 availability of materials and labor, local modification activity as related  
31 to schedules and time requirements for modification work.

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

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

39 0. Notwithstanding subsection P, paragraph 8 of this section, a person  
40 owning real property who enters into a contract for sale of the real  
41 property, who is responsible to the new owner of the property for  
42 modifications made to the property in the period subsequent to the transfer  
43 of title and who receives a consideration for the modifications is considered  
44 a prime contractor solely for purposes of taxing the gross proceeds of sale  
45 or gross income received for the modifications made subsequent to the  
46 transfer of title. The original owner's gross proceeds of sale or gross

1 income received for the modifications shall be determined according to the  
2 following methodology:

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

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

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

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

27 P. For the purposes of this section:

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

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

40 ~~4.~~ 3. "Manufactured building" means a manufactured home, mobile home  
41 or factory-built building, as defined in section 41-2142.

42 ~~3.~~ 4. "~~Dealership of~~ Manufactured ~~buildings~~ BUILDING DEALER" means a  
43 dealer who either:

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

1 (b) Supervises, performs or coordinates the excavation and completion  
2 of site improvements, ~~OR THE~~ setup or moving of a manufactured building  
3 including the contracting, if any, with any subcontractor or specialty  
4 contractor for the completion of the contract.

5 5. "Modification" means construction, ~~alteration, repair,~~ addition,  
6 subtraction, improvement, movement, wreckage or demolition.

7 6. "Modify" means to construct, ~~alter, repair,~~ add to, subtract from,  
8 improve, move, wreck or demolish.

9 7. "Prime contracting" means engaging in business as a prime  
10 contractor.

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

22 9. "Sale of a used manufactured building" does not include a lease of  
23 a used manufactured building.

24 Sec. 16. Repeal

25 Section ~~42-5076~~, Arizona Revised Statutes, is repealed from and after  
26 December 31, 2014.

27 Sec. 17. Section 42-5159, Arizona Revised Statutes, is amended to  
28 read:

29 ~~42-5159~~. Exemptions

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

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

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

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

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

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

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

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

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

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

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

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

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

- 43           (a) Printed or photographic materials, beginning August 7, 1985.
- 44           (b) Electronic or digital media materials, beginning July 17, 1994.

45           13. Tangible personal property purchased by:

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

4 (b) A hospital operated by this state or a political subdivision of  
5 this state.

6 (c) A licensed nursing care institution or a licensed residential care  
7 institution or a residential care facility operated in conjunction with a  
8 licensed nursing care institution or a licensed kidney dialysis center, which  
9 provides medical services, nursing services or health related services and is  
10 not used or held for profit.

11 (d) A qualifying health care organization, as defined in section  
12 42-5001, if the tangible personal property is used by the organization solely  
13 to provide health and medical related educational and charitable services.

14 (e) A qualifying health care organization as defined in section  
15 42-5001 if the organization is dedicated to providing educational,  
16 therapeutic, rehabilitative and family medical education training for blind,  
17 visually impaired and multihandicapped children from the time of birth to age  
18 twenty-one.

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

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

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

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

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

37 (i) A qualifying community health center as defined in section  
38 42-5001.

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

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

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

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

14 15. Tangible personal property sold by:

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

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

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

28 16. 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 17. Prosthetic appliances, as defined in section 23-501, prescribed or  
32 recommended by a person who is licensed, registered or otherwise  
33 professionally credentialed as a physician, dentist, podiatrist,  
34 chiropractor, naturopath, homeopath, nurse or optometrist.

35 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

17           27. Lottery tickets or shares purchased pursuant to title 5, chapter  
18 5.1, article 1.

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

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

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

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

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

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

41           (b) Public educational institutions.

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

45           33. Natural gas or liquefied petroleum gas used to propel a motor  
46 vehicle.

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

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

19           36. Food, drink and condiment purchased for consumption within the  
20 premises of any prison, jail or other institution under the jurisdiction of  
21 the state department of corrections, the department of public safety, the  
22 department of juvenile corrections or a county sheriff.

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

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

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

37           (a) "Overhead materials" means tangible personal property, the gross  
38 proceeds of sales or gross income derived from which would otherwise be  
39 included in the retail classification, ~~and which are~~ THAT IS used or consumed  
40 in the performance of a contract, the cost of which is charged to an overhead  
41 expense account and allocated to various contracts based ~~upon~~ ON generally  
42 accepted accounting principles and consistent with government contract  
43 accounting standards.

44           (b) "Subcontract" means an agreement between a contractor and any  
45 person who is not an employee of the contractor for furnishing of supplies or  
46 services that, in whole or in part, are necessary to the performance of one

1 or more government contracts, or under which any portion of the contractor's  
2 obligation under one or more government contracts is performed, undertaken or  
3 assumed, and that includes provisions causing title to overhead materials or  
4 other tangible personal property used in the performance of the subcontract  
5 to pass to the government or that includes provisions incorporating such  
6 title passing clauses in a government contract into the subcontract.

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

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

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

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

28 44. Alternative fuel vehicles if the vehicle was manufactured as a  
29 diesel fuel vehicle and converted to operate on alternative fuel and  
30 equipment that is installed in a conventional diesel fuel motor vehicle to  
31 convert the vehicle to operate on an alternative fuel, as defined in section  
32 1-215.

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

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

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

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

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

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

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

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

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

17           (b) "Curriculum design or enhancement" means planning, implementing or  
18 reporting on courses of study, lessons, assignments or other learning  
19 activities.

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

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

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

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

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

45           2. Machinery, or equipment, used directly in the process of extracting  
46 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 and consisting of central office switching equipment, switchboards, private  
8 branch exchange equipment, microwave radio equipment and carrier equipment  
9 including optical fiber, coaxial cable and other transmission media ~~which~~  
10 ~~THAT~~ are components of carrier systems.

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

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

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

22 7. Aircraft, navigational and communication instruments and other  
23 accessories and related equipment sold to:

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

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

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

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

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

42 11. Buses or other urban mass transit vehicles ~~which~~ ~~THAT~~ are used  
43 directly to transport persons or property for hire or pursuant to a  
44 governmentally adopted and controlled urban mass transportation program and  
45 ~~which~~ ~~THAT~~ are sold to bus companies holding a federal certificate of  
46 convenience and necessity or operated by any city, town or other governmental

1 entity or by any person contracting with such governmental entity as part of  
2 a governmentally adopted and controlled program to provide urban mass  
3 transportation.

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

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

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

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

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

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

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

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

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

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

45 For the purposes of subdivision (b) of this paragraph, "test period" means  
46 the three hundred sixty-five day period beginning on the later of the date on

1 which the tangible personal property is purchased or the date on which the  
2 direct broadcast satellite television or data transmission service first  
3 transmits information to its customers.

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

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

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

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

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

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

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

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

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

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

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

14 C. The exemptions provided by subsection B of this section do not  
15 include:

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

20 2. Janitorial equipment and hand tools.

21 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

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

17 1. "Aircraft" includes:

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

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

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

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

31 Sec. 18. Section 42-6001, Arizona Revised Statutes, is amended to  
32 read:

33 42-6001. Collection and administration of transaction privilege  
34 tax and affiliated excise taxes; committee

35 A. The department ~~may~~ SHALL collect and administer any transaction  
36 privilege and affiliated excise taxes, including use tax, severance tax, jet  
37 fuel excise and use tax, and rental occupancy tax, imposed by any city or  
38 town, and the department and any city or town ~~may~~ SHALL enter into  
39 intergovernmental contracts or agreements to provide a uniform method of  
40 administration, collection, audit and licensing of transaction privilege and  
41 affiliated excise taxes imposed by the state or cities or towns pursuant to  
42 title 11, chapter 7, article 3. **THE CONTRACT OR AGREEMENT SHALL INCLUDE**  
43 **CRITERIA FOR THE DENIAL OF A REQUEST FROM A CITY OR TOWN FOR AN AUDIT OF A**  
44 **TAXPAYER THAT IS ENGAGED IN BUSINESS IN MORE THAN ONE CITY OR TOWN.**

45 B. The director ~~may~~ SHALL enter into agreements with cities and towns  
46 of this state that levy transaction privilege and affiliated excise taxes to

1 provide for unified or coordinated licensing, collection and auditing  
2 programs for such taxes levied by cities and towns and taxes levied pursuant  
3 to chapter 5 of this title. ~~Such~~ Cities and towns ~~may~~ SHALL enter into  
4 agreements with the department to provide for unified or coordinated  
5 licensing, collection and auditing programs for ~~such~~ transaction privilege  
6 and affiliated excise taxes levied by ~~such~~ cities and towns and for taxes  
7 levied pursuant to chapter 5 of this title.

8 ~~C. A city or town that does not enter into an agreement with the~~  
9 ~~department for the collection of municipal transaction privilege and~~  
10 ~~affiliated excise taxes shall report to the department on or before September~~  
11 ~~1 of each year the total amount of those taxes collected by the city or town~~  
12 ~~in the preceding fiscal year.~~

13 ~~D.~~ C. The director shall establish with ~~such~~ THE cities and towns a  
14 uniform licensing, collection and audit committee to direct such unified or  
15 coordinated functions.

16 ~~E.~~ D. A taxpayer who is required to pay any municipal transaction  
17 privilege and affiliated excise taxes to a city or town that ~~has~~ DID not  
18 ~~entered into~~ HAVE an intergovernmental contract or agreement with the  
19 department of revenue ~~under subsection B of this section~~ IN EFFECT AS OF  
20 JANUARY 1, 2013 to provide a coordinated method of collecting municipal  
21 transaction privilege and affiliated excise taxes may instead report and pay  
22 the required tax to that city or town through an online portal. The online  
23 portal shall be procured by the department of administration pursuant to a  
24 public-private partnership entered into pursuant to section 41-2559, shall  
25 include access to a single point of filing and paying the tax and shall  
26 provide security measures to protect taxpayer information. ~~The taxpayer may~~  
27 ~~be charged a fee to use the online portal.~~ THE DEPARTMENT OF REVENUE SHALL  
28 ADMINISTER THE PORTAL.

29 E. A TAXPAYER THAT DOES NOT REPORT AND PAY THE REQUIRED TAX TO A CITY  
30 OR TOWN THROUGH THE PORTAL SHALL FILE AND PAY THE TAX TO THE DEPARTMENT OF  
31 REVENUE IF THE DEPARTMENT HAS DEVELOPED THE ELECTRONIC AND NONELECTRONIC  
32 TOOLS NECESSARY TO CAPTURE DATA WITH SUFFICIENT SPECIFICITY TO MEET THE NEEDS  
33 OF ALL TAXING JURISDICTIONS, INCLUDING SPECIFIC DATA REGARDING EACH TAX  
34 CLASSIFICATION AND ANY CORRESPONDING DEDUCTIONS AT EACH BUSINESS LOCATION OF  
35 THE TAXPAYER.

36 Sec. 19. Section 42-6002, Arizona Revised Statutes, is amended to  
37 read:

38 42-6002. Procedures for levy, collection and enforcement  
39 applicable to cities and towns

40 A. The procedures for levy, collection and enforcement of payment of  
41 transaction privilege and affiliated excise taxes, including use tax,  
42 severance tax, jet fuel excise and use tax, and rental occupancy tax, levied  
43 by a city or town ~~by such city or town~~ shall be in the same manner as  
44 authorized by chapter 5 of this title ~~unless otherwise provided by the~~  
45 ~~ordinance of such city or town.~~ The department, when acting on behalf of a  
46 ~~city or town in levying and collecting transaction privilege and affiliated~~

1 ~~taxes for such city or town, shall utilize the procedures for levying,~~  
2 ~~collecting and enforcing the payment of such taxes on behalf of the city or~~  
3 ~~town.~~

4 ~~B. A city or town shall not:~~

5 ~~1. Employ auditors on a contingent fee basis or enter into contingent~~  
6 ~~fee contracts for auditing any transaction privilege or affiliated tax levied~~  
7 ~~by the city or town.~~

8 ~~2. Enter into contracts with a third party, other than this state or a~~  
9 ~~political subdivision of this state, for the collection, administration or~~  
10 ~~processing of transaction privilege or affiliated taxes levied by the city or~~  
11 ~~town. This paragraph does not apply to a city or town that does not contract~~  
12 ~~with the department for the collection, administration or processing of~~  
13 ~~transaction privilege or affiliated taxes levied by the city or town and that~~  
14 ~~enters into a contract with a third party solely for the collection of~~  
15 ~~delinquent city or town transaction privilege or affiliated taxes for which a~~  
16 ~~liability has been established.~~

17 B. AN INTERGOVERNMENTAL CONTRACT OR AGREEMENT ENTERED INTO PURSUANT TO  
18 SECTION 42-6001, SUBSECTION A SHALL INCLUDE THE FOLLOWING PROVISIONS:

19 1. ALL AUDITS SHALL BE CONDUCTED IN ACCORDANCE WITH STANDARD AUDIT  
20 PROCEDURES DEFINED IN THE DEPARTMENT OF REVENUE AUDIT MANUAL.

21 2. ALL AUDITORS SHALL BE TRAINED IN ACCORDANCE WITH THE POLICIES OF  
22 THE DEPARTMENT.

23 3. EXCEPT AS PROVIDED IN PARAGRAPH 4 OF THIS SUBSECTION, THE AUDIT OF  
24 A TAXPAYER THAT HAS LOCATIONS IN TWO OR MORE CITIES OR TOWNS SHALL BE  
25 CONDUCTED BY THE DEPARTMENT.

26 4. ALL AUDITS SHALL INCLUDE ALL TAXING JURISDICTIONS IN THIS STATE  
27 REGARDLESS OF WHICH JURISDICTION CONDUCTS THE AUDIT. A CITY OR TOWN MAY  
28 CONDUCT AN AUDIT OF ANY TAXPAYER THAT IS ENGAGED IN BUSINESS IN ONLY ONE CITY  
29 OR TOWN AND ANY OTHER TAXPAYER AUTHORIZED BY THE DEPARTMENT.

30 5. THE DEPARTMENT SHALL ISSUE ALL AUDIT ASSESSMENTS ON BEHALF OF ALL  
31 TAXING JURISDICTIONS IN A SINGLE NOTICE TO THE TAXPAYER.

32 6. APPEALS OF AUDIT ASSESSMENTS SHALL BE DIRECTED TO THE DEPARTMENT.

33 7. THE DEPARTMENT SHALL NOTIFY ALL AFFECTED CITIES AND TOWNS BEFORE  
34 ENTERING INTO ANY COMPROMISE, CLOSING, SETTLEMENT OR OTHER AGREEMENT WITH A  
35 PERSON RELATED TO THE TAX LEVIED AND IMPOSED BY THE CITIES AND TOWNS.

36 Sec. 20. Section 42-6004, Arizona Revised Statutes, is amended to  
37 read:

38 42-6004. Exemption from municipal tax

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

41 1. Exhibition events in this state sponsored, conducted or operated by  
42 a nonprofit organization that is exempt from taxation under section  
43 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the  
44 organization is associated with a major league baseball team or a national  
45 touring professional golfing association and no part of the organization's  
46 net earnings inures to the benefit of any private shareholder or individual.

- 1           2. Interstate telecommunications services, which include that portion  
2 of telecommunications services, such as subscriber line service, allocable by  
3 federal law to interstate telecommunications service.
- 4           3. Sales of warranty or service contracts.
- 5           4. Sales of motor vehicles to nonresidents of this state for use  
6 outside this state if the ~~vendor~~ MOTOR VEHICLE DEALER ships or delivers the  
7 motor vehicle to a destination outside this state.
- 8           5. Interest on finance contracts.
- 9           6. Dealer documentation fees on the sales of motor vehicles.
- 10          7. Sales of food or other items purchased with United States  
11 department of agriculture food stamp coupons issued under the food stamp act  
12 of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under section  
13 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661,  
14 section 4302; 42 United States Code section 1786) but may impose such a tax  
15 on other sales of food. If a city, town or special taxing district exempts  
16 sales of food from its tax or imposes a different transaction privilege rate  
17 on the gross proceeds of sales or gross income from sales of food and nonfood  
18 items, it shall use the definition of food prescribed by rule adopted by the  
19 department pursuant to section 42-5106.
- 20          8. Sales of internet access services to the person's subscribers and  
21 customers. For the purposes of this paragraph:
  - 22           (a) "Internet" means the computer and telecommunications facilities  
23 that comprise the interconnected worldwide network of networks that employ  
24 the transmission control protocol or internet protocol, or any predecessor or  
25 successor protocol, to communicate information of all kinds by wire or radio.
  - 26           (b) "Internet access" means a service that enables users to access  
27 content, information, electronic mail or other services over the internet.  
28 Internet access does not include telecommunication services provided by a  
29 common carrier.
- 30          9. The gross proceeds of sales or gross income retained by the Arizona  
31 exposition and state fair board from ride ticket sales at the annual Arizona  
32 state fair.
- 33          10. Through August 31, 2014, sales of Arizona centennial medallions by  
34 the historical advisory commission.
- 35          11. The gross proceeds of sales or gross income derived from a  
36 commercial lease in which a reciprocal insurer or a corporation leases real  
37 property to an affiliated corporation. For the purposes of this paragraph:
  - 38           (a) "Affiliated corporation" means a corporation that meets one of the  
39 following conditions:
    - 40           (i) The corporation owns or controls at least eighty per cent of the  
41 lessor.
    - 42           (ii) The corporation is at least eighty per cent owned or controlled  
43 by the lessor.
    - 44           (iii) The corporation is at least eighty per cent owned or controlled  
45 by a corporation that also owns or controls at least eighty per cent of the  
46 lessor.

1 (iv) The corporation is at least eighty per cent owned or controlled  
2 by a corporation that is at least eighty per cent owned or controlled by a  
3 reciprocal insurer.

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

7 (c) "Reciprocal insurer" has the same meaning prescribed in section  
8 20-762.

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

13 13. THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM A CONTRACT  
14 WITH THE OWNER OF REAL PROPERTY FOR THE MAINTENANCE, REPAIR OR REPLACEMENT OF  
15 EXISTING PROPERTY IS NOT SUBJECT TO TAX IF THE CONTRACT DOES NOT INCLUDE  
16 MODIFICATION ACTIVITIES. FOR THE PURPOSES OF THIS PARAGRAPH:

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

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

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

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

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

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

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

38 4. Incarcerating or detaining in a privately operated prison, jail or  
39 detention facility prisoners who are under the jurisdiction of the United  
40 States, this state or any other state or a political subdivision of this  
41 state or of any other state.

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

44 6. Any amount attributable to development fees that are incurred in  
45 relation to the construction, development or improvement of real property and

1 paid by the taxpayer as defined in the model city tax code or by a contractor  
2 providing services to the taxpayer. For the purposes of this paragraph:

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

5 (b) The attributable amount is equal to the total amount of  
6 development fees paid by the taxpayer or by a contractor providing services  
7 to the taxpayer and the total development fees credited in exchange for the  
8 construction of, contribution to or dedication of real property for providing  
9 public infrastructure, public safety or other public services necessary to  
10 the development. The real property must be the subject of the development  
11 fees.

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

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

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

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

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

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

32 Sec. 21. Section 42-6005, Arizona Revised Statutes, is amended to  
33 read:

34 42-6005. Unified audit committee; audits

35 A. The director shall establish a unified audit committee with cities  
36 and towns. The committee shall coordinate uniform audit functions. ~~The~~  
37 ~~committee shall publish uniform guidelines that interpret the model city tax~~  
38 ~~code and that apply to all cities and towns that have adopted the model city~~  
39 ~~tax code.~~

40 ~~B. If the department intends to conduct an audit of a taxpayer, the~~  
41 ~~department shall notify the cities or towns in which the taxpayer conducts~~  
42 ~~business. A city or town may accept the audit as a joint audit and may elect~~  
43 ~~to have a representative participate in the audit provided that no more than~~  
44 ~~two city or town representatives in total may participate. If a city or town~~  
45 ~~does not accept the audit as a joint audit, the city or town may not conduct~~  
46 ~~an audit of the taxpayer for forty-two months from the close of the last tax~~

1 ~~period covered by the audit unless an exception applies to that taxpayer~~  
2 ~~pursuant to section 42-2059. An audit conducted by a city or town serves as~~  
3 ~~a joint audit for all cities and towns that have taxing jurisdiction.~~

4 ~~C. A taxpayer that conducts business in more than one jurisdiction may~~  
5 ~~allow a joint audit for all taxing jurisdictions. A taxpayer that does not~~  
6 ~~allow a joint audit for all taxing jurisdictions is subject to an audit by~~  
7 ~~another jurisdiction at any time. If a joint audit is performed by a city or~~  
8 ~~town, this section shall not be construed to prohibit the department from~~  
9 ~~conducting any audit that does not violate the provisions of section 42-2059.~~

10 ~~D.~~ B. When the state statutes and model city tax code are the same  
11 and where the department has issued written guidance, the department's  
12 interpretation is binding on cities and towns.

13 Sec. 22. Section 42-6105, Arizona Revised Statutes, is amended to  
14 read:

15 42-6105. County transportation excise tax; counties with  
16 population of one million two hundred thousand or  
17 more persons

18 A. If approved by the qualified electors voting at a countywide  
19 election, a county with a population of one million two hundred thousand or  
20 more persons shall levy and the department shall collect a tax as provided by  
21 this section, in addition to all other taxes.

22 B. The tax shall be levied and collected:

23 1. At a rate of not more than ten per cent of the transaction  
24 privilege tax rate prescribed by section 42-5010, subsection A applying, as  
25 of January 1, 1990, to each person engaging or continuing in the county in a  
26 business taxed under chapter 5, article 1 of this title.

27 2. ~~In the case of persons subject to the tax imposed under section~~  
28 ~~42-5352, subsection A, At a rate of not more than .305 cents per gallon of~~  
29 ~~jet fuel sold~~ TEN PER CENT OF THE RATE PRESCRIBED BY SECTION 42-5352,  
30 SUBSECTION A.

31 3. On the use or consumption of electricity or natural gas by retail  
32 electric or natural gas customers in the county who are subject to use tax  
33 under section 42-5155, at a rate equal to the transaction privilege tax rate  
34 under paragraph 1 of this subsection applying to persons engaging or  
35 continuing in the county in the utilities transaction privilege tax  
36 classification.

37 C. The tax levied under this section shall be in effect for a term of  
38 twenty years.

39 D. The net revenues collected under this section shall be distributed  
40 and deposited as follows for use consistent with the regional transportation  
41 plan adopted under title 28, chapter 17, article 1:

42 1. 56.2 per cent to the regional area road fund pursuant to section  
43 28-6303 for freeways and other routes in the state highway system, including  
44 capital expense and maintenance.

1           2. 10.5 per cent to the regional area road fund pursuant to section  
2 28-6303 for major arterial streets and intersection improvements, including  
3 capital expense and implementation studies.

4           3. 33.3 per cent to the public transportation fund pursuant to section  
5 48-5103 for:

6           (a) Capital costs, maintenance and operation of public transportation  
7 classifications.

8           (b) Capital costs and utility relocation costs associated with a light  
9 rail public transit system.

10          Sec. 23. Section 42-6106, Arizona Revised Statutes, is amended to  
11 read:

12           42-6106. County transportation excise tax

13           A. If approved by the qualified electors voting at a countywide  
14 election, the regional transportation authority in any county shall levy and  
15 the department shall collect a transportation excise tax up to the rate  
16 authorized by this section in addition to all other taxes.

17           B. The tax shall be levied and collected:

18           1. At a rate of not more than ten per cent of the transaction  
19 privilege tax rate prescribed by section 42-5010, subsection A in effect on  
20 January 1, 1990 to each person engaging or continuing in the county in a  
21 business taxed under chapter 5, article 1 of this title.

22           2. ~~In the case of persons subject to the tax imposed under section~~  
23 ~~42-5352, subsection A,~~ At a rate of not more than ~~.305 cents per gallon of~~  
24 ~~jet fuel sold~~ TEN PER CENT OF THE RATE PRESCRIBED BY SECTION 42-5352,  
25 SUBSECTION A.

26           3. On the use or consumption of electricity or natural gas by retail  
27 electric or natural gas customers in the county who are subject to use tax  
28 under section 42-5155, at a rate equal to the transaction privilege tax rate  
29 under paragraph 1 applying to persons engaging or continuing in the county in  
30 the utilities transaction privilege tax classification.

31           C. Any subsequent reduction in the transaction privilege tax rate  
32 prescribed by chapter 5, article 1 of this title shall not reduce the tax  
33 that is approved and collected as prescribed in this section. The department  
34 shall collect the tax at a variable rate if the variable rate is specified in  
35 the ballot proposition. The department shall collect the tax at a modified  
36 rate if approved by a majority of the qualified electors voting.

37           D. The net revenues collected under this section:

38           1. In counties with a population exceeding four hundred thousand  
39 persons, shall be deposited in the regional transportation fund pursuant to  
40 section 48-5307.

41           2. In counties with a population of four hundred thousand or fewer  
42 persons, shall be deposited in the public transportation authority fund  
43 pursuant to section 28-9142 or the regional transportation fund pursuant to  
44 section 48-5307 or shall be allocated between both funds.

1 E. The tax shall be levied under this section beginning January 1 or  
2 July 1, whichever date occurs first after approval by the voters, and may be  
3 in effect for a period of not more than twenty years.

4 Sec. 24. Section 42-6107, Arizona Revised Statutes, is amended to  
5 read:

6 42-6107. County transportation excise tax for roads

7 A. If a majority of the qualified electors voting at a countywide  
8 special election, or a majority of the qualified electors voting on the  
9 ballot proposition at a general election, approves the transportation excise  
10 tax, the county shall levy and the department shall collect a tax:

11 1. At a rate of not more than ten per cent of the transaction  
12 privilege tax rate as prescribed by section 42-5010, subsection A applying,  
13 as of January 1, 1990, to each person engaging or continuing in the county in  
14 a business taxed under chapter 5, article 1 of this title.

15 ~~2. In the case of persons subject to the tax imposed under section~~  
16 ~~42-5352, subsection A, At a rate of not more than .305 cents per gallon of~~  
17 ~~jet fuel sold~~ TEN PER CENT OF THE RATE PRESCRIBED BY SECTION 42-5352,  
18 SUBSECTION A.

19 3. On the use or consumption of electricity or natural gas by retail  
20 electric or natural gas customers in the county who are subject to use tax  
21 under section 42-5155, at a rate equal to the transaction privilege tax rate  
22 under paragraph 1 applying to persons engaging or continuing in the county in  
23 the utilities transaction privilege tax classification. If a majority of the  
24 qualified electors in the county approved the transportation excise tax under  
25 this section before 1998, a tax under this paragraph may be approved by  
26 resolution adopted by a majority of the board of supervisors.

27 B. The net revenues collected under this section within a county shall  
28 be deposited in the county's regional area road fund pursuant to title 28,  
29 chapter 17, article 3.

30 C. The tax shall be levied under this section beginning January 1 or  
31 July 1, whichever date occurs first after approval by the voters, and may be  
32 in effect for a period of not more than twenty years.

33 Sec. 25. Department of revenue; emergency rule making

34 The department of revenue may adopt emergency rules pursuant to section  
35 41-1026, Arizona Revised Statutes, as necessary to administer this act.

36 Sec. 26. City and town auditors

37 Notwithstanding section 42-6001, Arizona Revised Statutes, as amended  
38 by this act, for the period beginning January 1, 2015 and ending December 31,  
39 2015, the department shall enter into an agreement with the governing body of  
40 an incorporated city or town to furnish part-time or full-time personnel to  
41 perform audit services within the boundaries of the city or town. The  
42 incorporated city or town shall pay to the department the amount agreed to be  
43 paid.

44 Sec. 27. Legislative intent

45 By passing this act, the legislature:

1           1. Intends to simplify the administration of Arizona's transaction  
2 privilege tax in order to alleviate taxpayer confusion, relieve businesses  
3 from unnecessary compliance costs and to improve, at both the state and local  
4 level, the coordination of the revenue collection and audit function through  
5 the implementation of a single, unified, collection and audit system, thereby  
6 increasing voluntary compliance.

7           2. Does not intend to change the taxability of or to exempt from the  
8 tax imposed under section 42-5075, Arizona Revised Statutes, a contractor  
9 engaged in the modification of real property as part of a major remodel  
10 project.

11           Sec. 28. Revenue impact report

12           A. The joint legislative budget committee shall prepare a report of  
13 the revenue impact analysis resulting from this act on or before September  
14 30, 2016. The analysis shall include an estimated impact on revenues for  
15 this state and the counties, cities and towns.

16           B. The joint legislative budget committee shall provide copies of the  
17 report to the governor, president of the senate, speaker of the house of  
18 representatives, governor's office of strategic planning and budgeting and  
19 secretary of state.

20           Sec. 29. Effective date

21           This act is effective from and after December 31, 2014.

APPROVED BY THE GOVERNOR JUNE 25, 2013.

FILED IN THE OFFICE OF THE SECRETARY OF STATE JUNE 25, 2013.