

REFERENCE TITLE: TPT; diapers; feminine hygiene; formula

State of Arizona
House of Representatives
Fifty-fourth Legislature
First Regular Session
2019

HB 2153

Introduced by
Representatives Shope: Hernandez D

AN ACT

AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2018, CHAPTER 104, SECTION 15 AND CHAPTER 249, SECTION 1; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2018, CHAPTER 104, SECTION 15, CHAPTER 249, SECTION 1 AND CHAPTER 263, SECTION 1; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2018, CHAPTER 17, SECTION 1, CHAPTER 249, SECTION 6 AND CHAPTER 341, SECTION 2; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2018, CHAPTER 17, SECTION 1, CHAPTER 249, SECTION 6, CHAPTER 263, SECTION 3 AND CHAPTER 341, SECTION 2; AMENDING SECTION 42-6015, ARIZONA REVISED STATUTES; RELATING TO TAX EXEMPTIONS.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5061, Arizona Revised Statutes, as amended by
3 Laws 2018, chapter 104, section 15 and chapter 249, section 1, is amended
4 to read:

5 42-5061. Retail classification; definitions

6 A. The retail classification is comprised of the business of
7 selling 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
10 to 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
15 property 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
20 organization organized and operated exclusively for charitable purposes
21 and recognized by the United States internal revenue service under section
22 501(c)(3) of the 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
25 or condiment, whether simple, mixed or compounded.

26 6. Business activity that is properly included in any other
27 business 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
31 or veterinarian profession who is licensed by law to administer such
32 substances.

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

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

37 11. Prescription eyeglasses or contact lenses.

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

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

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

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

6 16. Items purchased with United States department of agriculture
7 coupons issued under the supplemental nutrition assistance program
8 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
9 7 United States Code sections 2011 through 2036b) by the United States
10 department of agriculture food and nutrition service or food instruments
11 issued under section 17 of the child nutrition act (P.L. 95-627; 92
12 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
13 section 1786).

14 17. Textbooks by any bookstore that are required by any state
15 university or community college.

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

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

25 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
26 article 1.

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

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

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

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

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

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

12 22. Motor vehicle fuel and use fuel that are subject to a tax
13 imposed under title 28, chapter 16, article 1, sales of use fuel to a
14 holder of a valid single trip use fuel tax permit issued under section
15 28-5739, sales of aviation fuel that are subject to the tax imposed under
16 section 28-8344 and sales of jet fuel that are subject to the tax imposed
17 under article 8 of this chapter.

18 23. Tangible personal property sold to a person engaged in the
19 business of leasing or renting such property under the personal property
20 rental classification if such property is to be leased or rented by such
21 person.

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

25 25. Tangible personal property sold to:

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

27 (b) A qualifying health care organization as defined in section
28 42-5001 if the tangible personal property is used by the organization
29 solely to provide health and medical related educational and charitable
30 services.

31 (c) A qualifying health care organization as defined in section
32 42-5001 if the organization is dedicated to providing educational,
33 therapeutic, rehabilitative and family medical education training for
34 blind and visually impaired children and children with multiple
35 disabilities from the time of birth to age twenty-one.

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

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

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

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

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

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

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

12 27. Tangible personal property sold to:

13 (a) A person that is subject to tax under this article by reason of
14 being engaged in business classified under section 42-5075 or to a
15 subcontractor working under the control of a person engaged in business
16 classified under section 42-5075, if the property so sold is any of the
17 following:

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

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

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

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

30 28. The sale of a motor vehicle to:

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

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

38 29. Tangible personal property purchased in this state by a
39 nonprofit charitable organization that has qualified under section
40 501(c)(3) of the United States internal revenue code and that engages in
41 and uses such property exclusively in programs for persons with mental or
42 physical disabilities if the programs are exclusively for training, job
43 placement, rehabilitation or testing.

44 30. Sales of tangible personal property by a nonprofit organization
45 that is exempt from taxation under section 501(c)(3), 501(c)(4) or

1 501(c)(6) of the internal revenue code if the organization is associated
2 with a major league baseball team or a national touring professional
3 golfing association and no part of the organization's net earnings inures
4 to the benefit of any private shareholder or individual. This paragraph
5 does not apply to an organization that is owned, managed or controlled, in
6 whole or in part, by a major league baseball team, or its owners,
7 officers, employees or agents, or by a major league baseball association
8 or professional golfing association, or its owners, officers, employees or
9 agents, unless the organization conducted or operated exhibition events in
10 this state before January 1, 2018 that were exempt from taxation under
11 section 42-5073.

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

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

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

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

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

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

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

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

3 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
9 permitting a chemical or physical change to occur in the materials as part
10 of the production process. This paragraph does not include chemicals that
11 are used or consumed in activities such as packaging, storage or
12 transportation but does not affect any deduction for such chemicals that
13 is otherwise provided by this section. For the purposes of this
14 paragraph, "printing" means a commercial printing operation and includes
15 job printing, engraving, embossing, copying and bookbinding.

16 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
20 be construed to authorize the taxation of casual activities or
21 transactions 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
27 the deceased, if one has been appointed.

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

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

34 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 42. Sales of:

40 (a) Livestock and poultry to persons engaging in the businesses of
41 farming, ranching or producing livestock or poultry.

42 (b) Livestock and poultry feed, salts, vitamins and other additives
43 for livestock or poultry consumption that are sold to persons for use or
44 consumption by their own livestock or poultry, for use or consumption in
45 the businesses of farming, ranching and producing or feeding livestock,

1 poultry, or livestock or poultry products or for use or consumption in
2 noncommercial boarding of livestock. For the purposes of this paragraph,
3 "poultry" includes ratites.

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

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

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

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

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

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

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

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

37 49. Sales of alternative fuel vehicles if the vehicle was
38 manufactured as a diesel fuel vehicle and converted to operate on
39 alternative fuel and equipment that is installed in a conventional diesel
40 fuel motor vehicle to convert the vehicle to operate on an alternative
41 fuel, as defined in section 1-215.

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

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

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

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

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

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

18 54. Sales of motor vehicle fuel and use fuel to a qualified
19 business under section 41-1516 for off-road use in harvesting, processing
20 or transporting qualifying forest products removed from qualifying
21 projects as defined in section 41-1516.

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

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

34 57. Computer data center equipment sold to the owner, operator or
35 qualified colocation tenant of a computer data center that is certified by
36 the Arizona commerce authority under section 41-1519 or an authorized
37 agent of the owner, operator or qualified colocation tenant during the
38 qualification period for use in the qualified computer data center. For
39 the purposes of this paragraph, "computer data center", "computer data
40 center equipment", "qualification period" and "qualified colocation
41 tenant" have the same meanings prescribed in section 41-1519.

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

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

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

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

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

18 60. Sales of works of fine art, as defined in section 44-1771, at
19 an art auction or gallery in this state to nonresidents of this state for
20 use outside this state if the vendor ships or delivers the work of fine
21 art to a destination outside this state.

22 61. THROUGH DECEMBER 31, 2027, TAMPONS, SANITARY NAPKINS, MENSTRUAL
23 SPONGES, MENSTRUAL CUPS AND SIMILAR ITEMS USED FOR FEMININE HYGIENE.

24 62. THROUGH DECEMBER 31, 2027, DISPOSABLE DIAPERS AND OTHER SIMILAR
25 DISPOSABLE ITEMS COMMONLY USED BY INDIVIDUALS FOR INCONTINENCE.

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

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

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

43 3. Tangible personal property sold to persons engaged in business
44 classified under the telecommunications classification, including a person
45 representing or working on behalf of such a person in a manner described

1 in section 42-5075, subsection 0, and consisting of central office
2 switching equipment, switchboards, private branch exchange equipment,
3 microwave radio equipment and carrier equipment including optical fiber,
4 coaxial cable and other transmission media that are components of carrier
5 systems.

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

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

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

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

21 (a) A person:

22 (i) Holding, or exempted by federal law from obtaining, a federal
23 certificate of public convenience and necessity for use as, in conjunction
24 with or becoming part of an aircraft to be used to transport persons for
25 hire in intrastate, interstate or foreign commerce.

26 (ii) That is certificated or licensed under federal aviation
27 administration regulations (14 Code of Federal Regulations part 121 or
28 135) as a scheduled or unscheduled carrier of persons for hire for use as
29 or in conjunction with or becoming part of an aircraft to be used to
30 transport persons for hire in intrastate, interstate or foreign commerce.

31 (iii) Holding a foreign air carrier permit for air transportation
32 for use as or in conjunction with or becoming a part of aircraft to be
33 used to transport persons, property or United States mail in intrastate,
34 interstate or foreign commerce.

35 (iv) Operating an aircraft to transport persons in any manner for
36 compensation or hire, or for use in a fractional ownership program that
37 meets the requirements of federal aviation administration regulations (14
38 Code of Federal Regulations part 91, subpart K), including as an air
39 carrier, a foreign air carrier or a commercial operator or under a
40 restricted category, within the meaning of 14 Code of Federal Regulations,
41 regardless of whether the operation or aircraft is regulated or certified
42 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
43 of Federal Regulations.

44 (v) That will lease or otherwise transfer operational control,
45 within the meaning of federal aviation administration operations

1 specification A008, or its successor, of the aircraft, instruments or
2 accessories to one or more persons described in item (i), (ii), (iii) or
3 (iv) of this subdivision, subject to section 42-5009, subsection Q.

4 (b) Any foreign government.

5 (c) Persons who are not residents of this state and who will not
6 use such property in this state other than in removing such property from
7 this state. This subdivision also applies to corporations that are not
8 incorporated in this state, regardless of maintaining a place of business
9 in this state, if the principal corporate office is located outside this
10 state and the property will not be used in this state other than in
11 removing the property from this state.

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

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

18 10. Machinery or equipment used directly to drill for oil or gas or
19 used directly in the process of extracting oil or gas from the earth for
20 commercial purposes.

21 11. Buses or other urban mass transit vehicles that are used
22 directly to transport persons or property for hire or pursuant to a
23 governmentally adopted and controlled urban mass transportation program
24 and that are sold to bus companies holding a federal certificate of
25 convenience and necessity or operated by any city, town or other
26 governmental entity or by any person contracting with such governmental
27 entity as part of a governmentally adopted and controlled program to
28 provide urban mass transportation.

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

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

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

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

43 14. Machinery or equipment used in research and development. For
44 the purposes of this paragraph, "research and development" means basic and
45 applied research in the sciences and engineering, and designing,

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

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

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

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

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

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

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

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

41 (a) Includes the integrated systems, fixtures, piping, movable
42 partitions, lighting and all property that is necessary or adapted to
43 reduce contamination or to control airflow, temperature, humidity,
44 chemical purity or other environmental conditions or manufacturing

1 tolerances, as well as the production machinery and equipment operating in
2 conjunction with the clean room environment.

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

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

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

20 19. Machinery and equipment that are sold to a person engaged in
21 the commercial production of livestock, livestock products or
22 agricultural, horticultural, viticultural or floricultural crops or
23 products in this state, including a person representing or working on
24 behalf of such a person in a manner described in section 42-5075,
25 subsection 0, if the machinery and equipment are used directly and
26 primarily to prevent, monitor, control or reduce air, water or land
27 pollution.

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

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

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

40 (c) Any machinery or equipment purchased after the television
41 station has ceased analog broadcasting, or purchased after November 1,
42 2009, whichever occurs first.

43 21. Qualifying equipment that is purchased from and after June 30,
44 2004 through June 30, 2024 by a qualified business under section 41-1516
45 for harvesting or processing qualifying forest products removed from

1 qualifying projects as defined in section 41-1516. To qualify for this
2 deduction, the qualified business at the time of purchase must present its
3 certification approved by the department.

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

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

10 2. Janitorial equipment and hand tools.

11 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

42 G. If a person is engaged in the business of selling tangible
43 personal property at both wholesale and retail, the tax under this section
44 applies only to the gross proceeds of the sales made other than at
45 wholesale if the person's books are kept so as to show separately the

1 gross proceeds of sales of each class, and if the books are not so kept,
2 the tax under this section applies to the gross proceeds of every sale so
3 made.

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

11 1. Agricultural producers who are owners, proprietors or tenants of
12 agricultural lands, orchards, farms or gardens where agricultural products
13 are grown, raised or prepared for market and who are marketing their own
14 agricultural products.

15 2. Businesses classified under the:

16 (a) Transporting classification.

17 (b) Utilities classification.

18 (c) Telecommunications classification.

19 (d) Pipeline classification.

20 (e) Private car line classification.

21 (f) Publication classification.

22 (g) Job printing classification.

23 (h) Prime contracting classification.

24 (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

28 O. For the purposes of this section, a sale of wireless
29 telecommunications equipment to a person who holds the equipment for sale
30 or transfer to a customer as an inducement to enter into or continue a
31 contract for telecommunications services that are taxable under section
32 42-5064 is considered to be a sale for resale in the regular course of
33 business.

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

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

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

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

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

5 1. The transfer of title or possession of the coal is for the
6 purpose of refining the coal.

7 2. The title or possession of the coal is transferred back to the
8 owner or operator of the power plant after completion of the coal refining
9 process. For the purposes of this paragraph, "coal refining process"
10 means the application of a coal additive system that aids in the reduction
11 of power plant emissions during the combustion of coal and the treatment
12 of flue gas.

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

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

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

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

37 U. In computing the tax base for the sale of a motor vehicle to a
38 nonresident of this state, if the purchaser's state of residence allows a
39 corresponding use tax exemption to the tax imposed by article 1 of this
40 chapter and the rate of the tax in the purchaser's state of residence is
41 lower than the rate prescribed in article 1 of this chapter or if the
42 purchaser's state of residence does not impose an excise tax, and the
43 nonresident has secured a special ninety day nonresident registration
44 permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01,
45 there shall be deducted from the tax base a portion of the gross proceeds

1 or gross income from the sale so that the amount of transaction privilege
2 tax that is paid in this state is equal to the excise tax that is imposed
3 by the purchaser's state of residence on the nonexempt sale or use of the
4 motor vehicle.

5 V. For the purposes of this section:

6 1. "Agricultural aircraft" means an aircraft that is built for
7 agricultural use for the aerial application of pesticides or fertilizer or
8 for aerial seeding.

9 2. "Aircraft" includes:

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

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

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

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

25 W. For the purposes of subsection I of this section:

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

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

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

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

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

44 6. "Subcontract" means an agreement between a contractor and any
45 person who is not an employee of the contractor for furnishing of supplies

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

9 Sec. 2. Section 42-5061, Arizona Revised Statutes, as amended by
10 Laws 2018, chapter 104, section 15, chapter 249, section 1 and chapter
11 263, section 1, is amended to read:

12 42-5061. Retail classification; definitions

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

18 1. Professional or personal service occupations or businesses that
19 involve sales or transfers of tangible personal property only as
20 inconsequential elements.

21 2. Services rendered in addition to selling tangible personal
22 property at retail.

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

26 4. Sales of tangible personal property by any nonprofit
27 organization organized and operated exclusively for charitable purposes
28 and recognized by the United States internal revenue service under section
29 501(c)(3) of the internal revenue code.

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

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

35 7. The sale of stocks and bonds.

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

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

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

44 11. Prescription eyeglasses or contact lenses.

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

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

8 14. Sales of motor vehicles to nonresidents of this state for use
9 outside this state if the motor vehicle dealer ships or delivers the motor
10 vehicle to a destination out of this state.

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

13 16. Items purchased with United States department of agriculture
14 coupons issued under the supplemental nutrition assistance program
15 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
16 7 United States Code sections 2011 through 2036b) by the United States
17 department of agriculture food and nutrition service or food instruments
18 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
19 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
20 section 1786).

21 17. Textbooks by any bookstore that are required by any state
22 university or community college.

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

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

32 20. Lottery tickets or shares pursuant to title 5, chapter 5.1,
33 article 1.

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

41 (a) "Cash equivalents" means items or intangibles, whether or not
42 negotiable, that are sold to one or more persons, through which a value
43 denominated in money is purchased in advance and may be redeemed in full
44 or in part for tangible personal property, intangibles or services. Cash
45 equivalents include gift cards, stored value cards, gift certificates,

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

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

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

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

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

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

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

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

31 25. Tangible personal property sold to:

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

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

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

42 (d) A qualifying community health center as defined in section
43 42-5001.

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

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

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

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

18 26. Magazines or other periodicals or other publications by this
19 state to encourage tourist travel.

20 27. Tangible personal property sold to:

21 (a) A person that is subject to tax under this article by reason of
22 being engaged in business classified under section 42-5075 or to a
23 subcontractor working under the control of a person engaged in business
24 classified under section 42-5075, if the property so sold is any of the
25 following:

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

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

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

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

38 28. The sale of a motor vehicle to:

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

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

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

7 30. Sales of tangible personal property by a nonprofit organization
8 that is exempt from taxation under section 501(c)(3), 501(c)(4) or
9 501(c)(6) of the internal revenue code if the organization is associated
10 with a major league baseball team or a national touring professional
11 golfing association and no part of the organization's net earnings inures
12 to the benefit of any private shareholder or individual. This paragraph
13 does not apply to an organization that is owned, managed or controlled, in
14 whole or in part, by a major league baseball team, or its owners,
15 officers, employees or agents, or by a major league baseball association
16 or professional golfing association, or its owners, officers, employees or
17 agents, unless the organization conducted or operated exhibition events in
18 this state before January 1, 2018 that were exempt from taxation under
19 section 42-5073.

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

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

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

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

40 35. Sales of natural gas or liquefied petroleum gas used to propel
41 a motor vehicle.

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

1 37. Petroleum, coke, natural gas, virgin fuel oil and electricity
 2 sold to a qualified environmental technology manufacturer, producer or
 3 processor as defined in section 41-1514.02 and directly used or consumed
 4 in the generation or provision of on-site power or energy solely for
 5 environmental technology manufacturing, producing or processing or
 6 environmental protection. This paragraph shall apply for twenty full
 7 consecutive calendar or fiscal years from the date the first paper
 8 manufacturing machine is placed in service. In the case of an
 9 environmental technology manufacturer, producer or processor who does not
 10 manufacture paper, the time period shall begin with the date the first
 11 manufacturing, processing or production equipment is placed in service.

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

25 39. Through December 31, 1994, personal property liquidation
 26 transactions, conducted by a personal property liquidator. From and after
 27 December 31, 1994, personal property liquidation transactions shall be
 28 taxable under this section provided that nothing in this subsection shall
 29 be construed to authorize the taxation of casual activities or
 30 transactions under this chapter. For the purposes of this paragraph:

31 (a) "Personal property liquidation transaction" means a sale of
 32 personal property made by a personal property liquidator acting solely on
 33 behalf of the owner of the personal property sold at the dwelling of the
 34 owner or on the death of any owner, on behalf of the surviving spouse, if
 35 any, any devisee or heir or the personal representative of the estate of
 36 the deceased, if one has been appointed.

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

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

43 41. A motor vehicle and any repair and replacement parts and
 44 tangible personal property becoming a part of such motor vehicle sold to a
 45 motor carrier who is subject to a fee prescribed in title 28, chapter 16,

1 article 4 and who is engaged in the business of leasing or renting such
2 property.

3 42. Sales of:

4 (a) Livestock and poultry to persons engaging in the businesses of
5 farming, ranching or producing livestock or poultry.

6 (b) Livestock and poultry feed, salts, vitamins and other additives
7 for livestock or poultry consumption that are sold to persons for use or
8 consumption by their own livestock or poultry, for use or consumption in
9 the businesses of farming, ranching and producing or feeding livestock,
10 poultry, or livestock or poultry products or for use or consumption in
11 noncommercial boarding of livestock. For the purposes of this paragraph,
12 "poultry" includes ratites.

13 43. Sales of implants used as growth promotants and injectable
14 medicines, not already exempt under paragraph 8 of this subsection, for
15 livestock or poultry owned by or in possession of persons who are engaged
16 in producing livestock, poultry, or livestock or poultry products or who
17 are engaged in feeding livestock or poultry commercially. For the
18 purposes of this paragraph, "poultry" includes ratites.

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

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

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

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

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

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

38 48. Tangible personal property sold to a commercial airline and
39 consisting of food, beverages and condiments and accessories used for
40 serving the food and beverages, if those items are to be provided without
41 additional charge to passengers for consumption in flight. For the
42 purposes of this paragraph, "commercial airline" means a person holding a
43 federal certificate of public convenience and necessity or foreign air
44 carrier permit for air transportation to transport persons, property or
45 United States mail in intrastate, interstate or foreign commerce.

1 49. Sales of alternative fuel vehicles if the vehicle was
2 manufactured as a diesel fuel vehicle and converted to operate on
3 alternative fuel and equipment that is installed in a conventional diesel
4 fuel motor vehicle to convert the vehicle to operate on an alternative
5 fuel, as defined in section 1-215.

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

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

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

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

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

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

26 54. Sales of motor vehicle fuel and use fuel to a qualified
27 business under section 41-1516 for off-road use in harvesting, processing
28 or transporting qualifying forest products removed from qualifying
29 projects as defined in section 41-1516.

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

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

42 57. Computer data center equipment sold to the owner, operator or
43 qualified colocation tenant of a computer data center that is certified by
44 the Arizona commerce authority under section 41-1519 or an authorized
45 agent of the owner, operator or qualified colocation tenant during the

1 qualification period for use in the qualified computer data center. For
2 the purposes of this paragraph, "computer data center", "computer data
3 center equipment", "qualification period" and "qualified colocation
4 tenant" have the same meanings prescribed in section 41-1519.

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

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

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

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

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

25 60. Sales of works of fine art, as defined in section 44-1771, at
26 an art auction or gallery in this state to nonresidents of this state for
27 use outside this state if the vendor ships or delivers the work of fine
28 art to a destination outside this state.

29 61. Sales of coal.

30 62. THROUGH DECEMBER 31, 2027, TAMPONS, SANITARY NAPKINS, MENSTRUAL
31 SPONGES, MENSTRUAL CUPS AND SIMILAR ITEMS USED FOR FEMININE HYGIENE.

32 63. THROUGH DECEMBER 31, 2027, DISPOSABLE DIAPERS AND OTHER SIMILAR
33 DISPOSABLE ITEMS COMMONLY USED BY INDIVIDUALS FOR INCONTINENCE.

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

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

1 2. Mining machinery, or equipment, used directly in the process of
2 extracting ores or minerals from the earth for commercial purposes,
3 including equipment required to prepare the materials for extraction and
4 handling, loading or transporting such extracted material to the surface.
5 "Mining" includes underground, surface and open pit operations for
6 extracting ores and minerals.

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

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

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

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

28 7. Aircraft, navigational and communication instruments and other
29 accessories and related equipment sold to:

30 (a) A person:

31 (i) Holding, or exempted by federal law from obtaining, a federal
32 certificate of public convenience and necessity for use as, in conjunction
33 with or becoming part of an aircraft to be used to transport persons for
34 hire in intrastate, interstate or foreign commerce.

35 (ii) That is certificated or licensed under federal aviation
36 administration regulations (14 Code of Federal Regulations part 121 or
37 135) as a scheduled or unscheduled carrier of persons for hire for use as
38 or in conjunction with or becoming part of an aircraft to be used to
39 transport persons for hire in intrastate, interstate or foreign commerce.

40 (iii) Holding a foreign air carrier permit for air transportation
41 for use as or in conjunction with or becoming a part of aircraft to be
42 used to transport persons, property or United States mail in intrastate,
43 interstate or foreign commerce.

44 (iv) Operating an aircraft to transport persons in any manner for
45 compensation or hire, or for use in a fractional ownership program that

1 meets the requirements of federal aviation administration regulations
2 (14 Code of Federal Regulations part 91, subpart K), including as an air
3 carrier, a foreign air carrier or a commercial operator or under a
4 restricted category, within the meaning of 14 Code of Federal Regulations,
5 regardless of whether the operation or aircraft is regulated or certified
6 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
7 of Federal Regulations.

8 (v) That will lease or otherwise transfer operational control,
9 within the meaning of federal aviation administration operations
10 specification A008, or its successor, of the aircraft, instruments or
11 accessories to one or more persons described in item (i), (ii), (iii) or
12 (iv) of this subdivision, subject to section 42-5009, subsection Q.

13 (b) Any foreign government.

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

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

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

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

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

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

39 13. New machinery and equipment consisting of agricultural
40 aircraft, tractors, tractor-drawn implements, self-powered implements,
41 machinery and equipment necessary for extracting milk, and machinery and
42 equipment necessary for cooling milk and livestock, and drip irrigation
43 lines not already exempt under paragraph 6 of this subsection and that are
44 used for commercial production of agricultural, horticultural,

1 viticultural and floricultural crops and products in this state. For the
2 purposes of this paragraph:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

29 19. Machinery and equipment that are sold to a person engaged in
30 the commercial production of livestock, livestock products or
31 agricultural, horticultural, viticultural or floricultural crops or
32 products in this state, including a person representing or working on
33 behalf of such a person in a manner described in section 42-5075,
34 subsection 0, if the machinery and equipment are used directly and
35 primarily to prevent, monitor, control or reduce air, water or land
36 pollution.

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

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

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

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

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

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

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

19 2. Janitorial equipment and hand tools.

20 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

21 1. Agricultural producers who are owners, proprietors or tenants of
22 agricultural lands, orchards, farms or gardens where agricultural products
23 are grown, raised or prepared for market and who are marketing their own
24 agricultural products.

25 2. Businesses classified under the:

26 (a) Transporting classification.

27 (b) Utilities classification.

28 (c) Telecommunications classification.

29 (d) Pipeline classification.

30 (e) Private car line classification.

31 (f) Publication classification.

32 (g) Job printing classification.

33 (h) Prime contracting classification.

34 (i) Restaurant classification.

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

38 1. Sales made directly to the United States government or its
39 departments or agencies by a manufacturer, modifier, assembler or
40 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
44 agencies by the manufacturer, modifier, assembler or repairer.

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

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

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

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

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

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

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

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

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

39 O. For the purposes of this section, a sale of wireless
40 telecommunications equipment to a person who holds the equipment for sale
41 or transfer to a customer as an inducement to enter into or continue a
42 contract for telecommunications services that are taxable under section
43 42-5064 is considered to be a sale for resale in the regular course of
44 business.

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

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

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

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

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

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

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

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

37 T. In computing the tax base for the sale of a motor vehicle to a
38 nonresident of this state, if the purchaser's state of residence allows a
39 corresponding use tax exemption to the tax imposed by article 1 of this
40 chapter and the rate of the tax in the purchaser's state of residence is
41 lower than the rate prescribed in article 1 of this chapter or if the
42 purchaser's state of residence does not impose an excise tax, and the
43 nonresident has secured a special ninety day nonresident registration
44 permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01,
45 there shall be deducted from the tax base a portion of the gross proceeds

1 or gross income from the sale so that the amount of transaction privilege
2 tax that is paid in this state is equal to the excise tax that is imposed
3 by the purchaser's state of residence on the nonexempt sale or use of the
4 motor vehicle.

5 U. For the purposes of this section:

6 1. "Agricultural aircraft" means an aircraft that is built for
7 agricultural use for the aerial application of pesticides or fertilizer or
8 for aerial seeding.

9 2. "Aircraft" includes:

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

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

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

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

25 V. For the purposes of subsection I of this section:

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

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

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

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

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

44 6. "Subcontract" means an agreement between a contractor and any
45 person who is not an employee of the contractor for furnishing of supplies

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

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

11 42-5159. Exemptions

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

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

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

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

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

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

40 6. Tangible personal property brought into this state by an
41 individual who was a nonresident at the time the property was purchased
42 for storage, use or consumption by the individual if the first actual use
43 or consumption of the property was outside this state, unless the property
44 is used in conducting a business in this state.

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

7 8. Purchases of:

8 (a) Livestock and poultry to persons engaging in the businesses of
9 farming, ranching or producing livestock or poultry.

10 (b) Livestock and poultry feed, salts, vitamins and other additives
11 sold to persons for use or consumption in the businesses of farming,
12 ranching and producing or feeding livestock or poultry or for use or
13 consumption in noncommercial boarding of livestock. For the purposes of
14 this paragraph, "poultry" includes ratites.

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

18 10. Tangible personal property not exceeding ~~two hundred dollars~~
19 \$200 in any one month purchased by an individual at retail outside the
20 continental limits of the United States for the individual's own personal
21 use and enjoyment.

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

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

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

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

32 13. Tangible personal property purchased by:

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

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

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

43 (d) A qualifying health care organization, as defined in section
44 42-5001, if the tangible personal property is used by the organization

1 solely to provide health and medical related educational and charitable
2 services.

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

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

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

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

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

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

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

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

33 (j) A qualifying community health center as defined in section
34 42-5001.

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

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

43 (m) For taxable periods beginning from and after June 30, 2001, a
44 nonprofit charitable organization that has qualified under section
45 501(c)(3) of the internal revenue code and that provides residential

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

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

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

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

18 15. Tangible personal property sold by:

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

22 (b) A nonprofit organization that is exempt from taxation under
23 section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if
24 the organization is associated with a major league baseball team or a
25 national touring professional golfing association and no part of the
26 organization's net earnings inures to the benefit of any private
27 shareholder or individual. This subdivision does not apply to an
28 organization that is owned, managed or controlled, in whole or in part, by
29 a major league baseball team, or its owners, officers, employees or
30 agents, or by a major league baseball association or professional golfing
31 association, or its owners, officers, employees or agents, unless the
32 organization conducted or operated exhibition events in this state before
33 January 1, 2018 that were exempt from transaction privilege tax under
34 section 42-5073.

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

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

- 1 17. Prosthetic appliances, as defined in section 23-501, prescribed
2 or recommended by a person who is licensed, registered or otherwise
3 professionally credentialed as a physician, dentist, podiatrist,
4 chiropractor, naturopath, homeopath, nurse or optometrist.
- 5 18. Prescription eyeglasses and contact lenses.
- 6 19. Insulin, insulin syringes and glucose test strips.
- 7 20. Hearing aids as defined in section 36-1901.
- 8 21. Durable medical equipment that has a centers for medicare and
9 medicaid services common procedure code, is designated reimbursable by
10 medicare, is prescribed by a person who is licensed under title 32,
11 chapter 7, 13, 17 or 29, can withstand repeated use, is primarily and
12 customarily used to serve a medical purpose, is generally not useful to a
13 person in the absence of illness or injury and is appropriate for use in
14 the home.
- 15 22. Food, as provided in and subject to the conditions of article 3
16 of this chapter and section 42-5074.
- 17 23. Items purchased with United States department of agriculture
18 coupons issued under the supplemental nutrition assistance program
19 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
20 7 United States Code sections 2011 through 2036b) by the United States
21 department of agriculture food and nutrition service or food instruments
22 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
23 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
24 section 1786).
- 25 24. Food and drink provided without monetary charge by a taxpayer
26 that is subject to section 42-5074 to its employees for their own
27 consumption on the premises during the employees' hours of employment.
- 28 25. Tangible personal property that is used or consumed in a
29 business subject to section 42-5074 for human food, drink or condiment,
30 whether simple, mixed or compounded.
- 31 26. Food, drink or condiment and accessory tangible personal
32 property that are acquired for use by or provided to a school district or
33 charter school if they are to be either served or prepared and served to
34 persons for consumption on the premises of a public school in the school
35 district or on the premises of the charter school during school hours.
- 36 27. Lottery tickets or shares purchased pursuant to title 5,
37 chapter 5.1, article 1.
- 38 28. Textbooks, sold by a bookstore, that are required by any state
39 university or community college.
- 40 29. Magazines, other periodicals or other publications produced by
41 this state to encourage tourist travel.
- 42 30. Paper machine clothing, such as forming fabrics and dryer
43 felts, purchased by a paper manufacturer and directly used or consumed in
44 paper manufacturing.

1 31. Coal, petroleum, coke, natural gas, virgin fuel oil and
2 electricity purchased by a qualified environmental technology
3 manufacturer, producer or processor as defined in section 41-1514.02 and
4 directly used or consumed in the generation or provision of on-site power
5 or energy solely for environmental technology manufacturing, producing or
6 processing or environmental protection. This paragraph shall apply for
7 twenty full consecutive calendar or fiscal years from the date the first
8 paper manufacturing machine is placed in service. In the case of an
9 environmental technology manufacturer, producer or processor who does not
10 manufacture paper, the time period shall begin with the date the first
11 manufacturing, processing or production equipment is placed in service.

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

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

16 (b) Public educational institutions.

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

20 33. Natural gas or liquefied petroleum gas used to propel a motor
21 vehicle.

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

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

40 36. Food, drink and condiment purchased for consumption within the
41 premises of any prison, jail or other institution under the jurisdiction
42 of the state department of corrections, the department of public safety,
43 the department of juvenile corrections or a county sheriff.

44 37. A motor vehicle and any repair and replacement parts and
45 tangible personal property becoming a part of such motor vehicle sold to a

1 motor carrier who is subject to a fee prescribed in title 28, chapter 16,
2 article 4 and who is engaged in the business of leasing or renting such
3 property.

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

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

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

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

31 40. Through December 31, 1994, tangible personal property sold
32 pursuant to a personal property liquidation transaction, as defined in
33 section 42-5061. From and after December 31, 1994, tangible personal
34 property sold pursuant to a personal property liquidation transaction, as
35 defined in section 42-5061, if the gross proceeds of the sales were
36 included in the measure of the tax imposed by article 1 of this chapter or
37 if the personal property liquidation was a casual activity or transaction.

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

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

1 43. Tangible personal property purchased by a commercial airline
2 and consisting of food, beverages and condiments and accessories used for
3 serving the food and beverages, if those items are to be provided without
4 additional charge to passengers for consumption in flight. For the
5 purposes of this paragraph, "commercial airline" means a person holding a
6 federal certificate of public convenience and necessity or foreign air
7 carrier permit for air transportation to transport persons, property or
8 United States mail in intrastate, interstate or foreign commerce.

9 44. Alternative fuel vehicles if the vehicle was manufactured as a
10 diesel fuel vehicle and converted to operate on alternative fuel and
11 equipment that is installed in a conventional diesel fuel motor vehicle to
12 convert the vehicle to operate on an alternative fuel, as defined in
13 section 1-215.

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

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

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

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

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

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

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

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

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

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

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

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

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

16 54. Computer data center equipment sold to the owner, operator or
17 qualified colocation tenant of a computer datacenter that is certified by
18 the Arizona commerce authority under section 41-1519 or an authorized
19 agent of the owner, operator or qualified colocation tenant during the
20 qualification period for use in the qualified computer data center. For
21 the purposes of this paragraph, "computer data center", "computer data
22 center equipment", "qualification period" and "qualified colocation
23 tenant" have the same meanings prescribed in section 41-1519.

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

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

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

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

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

43 (b) "Indian reservation" means all lands that are within the limits
44 of areas set aside by the United States for the exclusive use and
45 occupancy of an Indian tribe by treaty, law or executive order and that

1 are recognized as Indian reservations by the United States department of
2 the interior.

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

7 57. Cash equivalents, precious metal bullion and monetized bullion
8 purchased by the ultimate consumer, but coins or other forms of money for
9 manufacture into jewelry or works of art are subject to tax, and tangible
10 personal property that is purchased through the redemption of any cash
11 equivalent by the holder as a means of payment for goods that are subject
12 to tax under this article is subject to tax. For the purposes of this
13 paragraph:

14 (a) "Cash equivalents" means items, whether or not negotiable, that
15 are sold to one or more persons, through which a value denominated in
16 money is purchased in advance and that may be redeemed in full or in part
17 for tangible personal property, intangibles or services. Cash equivalents
18 include gift cards, stored value cards, gift certificates, vouchers,
19 traveler's checks, money orders or other tangible instruments or orders.
20 Cash equivalents do not include either of the following:

21 (i) Items that are sold to one or more persons and through which a
22 value is not denominated in money.

23 (ii) Prepaid calling cards for telecommunications services.

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

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

31 58. THROUGH DECEMBER 31, 2027, TAMPONS, SANITARY NAPKINS, MENSTRUAL
32 SPONGES, MENSTRUAL CUPS AND SIMILAR ITEMS USED FOR FEMININE HYGIENE.

33 59. THROUGH DECEMBER 31, 2027, DISPOSABLE DIAPERS AND OTHER SIMILAR
34 DISPOSABLE ITEMS COMMONLY USED BY INDIVIDUALS FOR INCONTINENCE.

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

1 2. Machinery, or equipment, used directly in the process of
2 extracting ores or minerals from the earth for commercial purposes,
3 including equipment required to prepare the materials for extraction and
4 handling, loading or transporting such extracted material to the surface.
5 "Mining" includes underground, surface and open pit operations for
6 extracting ores and minerals.

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

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

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

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

28 7. Aircraft, navigational and communication instruments and other
29 accessories and related equipment sold to:

30 (a) A person:

31 (i) Holding, or exempted by federal law from obtaining, a federal
32 certificate of public convenience and necessity for use as, in conjunction
33 with or becoming part of an aircraft to be used to transport persons for
34 hire in intrastate, interstate or foreign commerce.

35 (ii) That is certificated or licensed under federal aviation
36 administration regulations (14 Code of Federal Regulations part 121 or
37 135) as a scheduled or unscheduled carrier of persons for hire for use as
38 or in conjunction with or becoming part of an aircraft to be used to
39 transport persons for hire in intrastate, interstate or foreign commerce.

40 (iii) Holding a foreign air carrier permit for air transportation
41 for use as or in conjunction with or becoming a part of aircraft to be
42 used to transport persons, property or United States mail in intrastate,
43 interstate or foreign commerce.

44 (iv) Operating an aircraft to transport persons in any manner for
45 compensation or hire, or for use in a fractional ownership program that

1 meets the requirements of federal aviation administration regulations (14
2 Code of Federal Regulations part 91, subpart K), including as an air
3 carrier, a foreign air carrier or a commercial operator or under a
4 restricted category, within the meaning of 14 Code of Federal Regulations,
5 regardless of whether the operation or aircraft is regulated or certified
6 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
7 of Federal Regulations.

8 (v) That will lease or otherwise transfer operational control,
9 within the meaning of federal aviation administration operations
10 specification A008, or its successor, of the aircraft, instruments or
11 accessories to one or more persons described in item (i), (ii), (iii) or
12 (iv) of this subdivision, subject to section 42-5009, subsection Q.

13 (b) Any foreign government.

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

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

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

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

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

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

39 13. New machinery and equipment consisting of agricultural
40 aircraft, tractors, tractor-drawn implements, self-powered implements,
41 machinery and equipment necessary for extracting milk, and machinery and
42 equipment necessary for cooling milk and livestock, and drip irrigation
43 lines not already exempt under paragraph 6 of this subsection and that are
44 used for commercial production of agricultural, horticultural,

1 viticultural and floricultural crops and products in this state. For the
2 purposes of this paragraph:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

29 19. Machinery and equipment that are used in the commercial
30 production of livestock, livestock products or agricultural,
31 horticultural, viticultural or floricultural crops or products in this
32 state, including production by a person representing or working on behalf
33 of such a person in a manner described in section 42-5075, subsection 0,
34 if the machinery and equipment are used directly and primarily to prevent,
35 monitor, control or reduce air, water or land pollution.

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

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

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

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

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

13 22. Machinery, equipment, materials and other tangible personal
14 property used directly and predominantly to construct a qualified
15 environmental technology manufacturing, producing or processing facility
16 as described in section 41-1514.02. This paragraph applies for ten full
17 consecutive calendar or fiscal years after the start of initial
18 construction.

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

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

25 2. Janitorial equipment and hand tools.

26 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

1 state if the electricity is delivered to a point of sale outside this
2 state.

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

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

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

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

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

24 G. The tax levied by this article does not apply to the purchase
25 price of electricity, natural gas or liquefied petroleum gas by:

26 1. A qualified manufacturing or smelting business. A utility that
27 claims this deduction shall report each month, on a form prescribed by the
28 department, the name and address of each qualified manufacturing or
29 smelting business for which this deduction is taken. This paragraph
30 applies to gas transportation services. For the purposes of this
31 paragraph:

32 (a) "Gas transportation services" means the services of
33 transporting natural gas to a natural gas customer or to a natural gas
34 distribution facility if the natural gas was purchased from a supplier
35 other than the utility.

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

43 (c) "Qualified manufacturing or smelting business" means one of the
44 following:

1 (i) A business that manufactures or smelts tangible products in
2 this state, of which at least fifty-one percent of the manufactured or
3 smelted products will be exported out of state for incorporation into
4 another product or sold out of state for a final sale.

5 (ii) A business that derives at least fifty-one percent of its
6 gross income from the sale of manufactured or smelted products
7 manufactured or smelted by the business.

8 (iii) A business that uses at least fifty-one percent of its square
9 footage in this state for manufacturing or smelting and business
10 activities directly related to manufacturing or smelting.

11 (iv) A business that employs at least fifty-one percent of its
12 workforce in this state in manufacturing or smelting and business
13 activities directly related to manufacturing or smelting.

14 (v) A business that uses at least fifty-one percent of the value of
15 its capitalized assets in this state, as reflected on the business's books
16 and records, for manufacturing or smelting and business activities
17 directly related to manufacturing or smelting.

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

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

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

24 1. "Agricultural aircraft" means an aircraft that is built for
25 agricultural use for the aerial application of pesticides or fertilizer or
26 for aerial seeding.

27 2. "Aircraft" includes:

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

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

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

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

1 Sec. 4. Section 42-6004, Arizona Revised Statutes, as amended by
2 Laws 2018, chapter 17, section 1, chapter 249, section 6 and chapter 341,
3 section 2, is amended to read:

4 42-6004. Exemption from municipal tax; definitions

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

7 1. Exhibition events in this state sponsored, conducted or operated
8 by a nonprofit organization that is exempt from taxation under section
9 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the
10 organization is associated with a major league baseball team or a national
11 touring professional golfing association and no part of the organization's
12 net earnings inures to the benefit of any private shareholder or
13 individual. This paragraph does not apply to an organization that is
14 owned, managed or controlled, in whole or in part, by a major league
15 baseball team, or its owners, officers, employees or agents, or by a major
16 league baseball association or professional golfing association, or its
17 owners, officers, employees or agents, unless the organization conducted
18 or operated exhibition events in this state before January 1, 2018 that
19 were exempt from state transaction privilege tax under section 42-5073.

20 2. Interstate telecommunications services, which include that
21 portion of telecommunications services, such as subscriber line service,
22 allocable by federal law to interstate telecommunications service.

23 3. Sales of warranty or service contracts.

24 4. Sales of motor vehicles to nonresidents of this state for use
25 outside this state if the motor vehicle dealer ships or delivers the motor
26 vehicle to a destination outside this state.

27 5. Interest on finance contracts.

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

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

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

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

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

43 9. The gross proceeds of sales or gross income retained by the
44 Arizona exposition and state fair board from ride ticket sales at the
45 annual Arizona state fair.

1 10. Leasing real property between affiliated companies, businesses,
2 persons or reciprocal insurers. For the purposes of this paragraph:

3 (a) "Affiliated companies, businesses, persons or reciprocal
4 insurers" means the lessor holds a controlling interest in the lessee, the
5 lessee holds a controlling interest in the lessor, affiliated persons hold
6 a controlling interest in both the lessor and the lessee, or an unrelated
7 person holds a controlling interest in both the lessor and lessee.

8 (b) "Affiliated persons" means members of the individual's family
9 or persons who have ownership or control of a business entity.

10 (c) "Controlling interest" means direct or indirect ownership of at
11 least eighty percent of the voting shares of a corporation or of the
12 interests in a company, business or person other than a corporation.

13 (d) "Members of the individual's family" means the individual's
14 spouse and brothers and sisters, whether by whole or half blood, including
15 adopted persons, ancestors and lineal descendants.

16 (e) "Reciprocal insurer" has the same meaning prescribed in section
17 20-762.

18 11. The gross proceeds of sales or gross income derived from a
19 contract for the installation, assembly, repair or maintenance of
20 machinery, equipment or other tangible personal property that is described
21 in section 42-5061, subsection B and that has independent functional
22 utility, pursuant to the following provisions:

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

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

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

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

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

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

44 (d) For the purposes of this paragraph, "independent functional
45 utility" means that the machinery, equipment or other tangible personal

1 property can independently perform its function without attachment to real
2 property, other than attachment for any of the following purposes:

3 (i) Assembling the machinery, equipment or other tangible personal
4 property.

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

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

10 (iv) Stabilizing or protecting the machinery, equipment or other
11 tangible personal property during operation by bolting, burying or
12 performing other dissimilar nonpermanent connections to either real
13 property or real property improvements.

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

18 13. Computer data center equipment sold to the owner, operator or
19 qualified colocation tenant of a computer data center that is certified by
20 the Arizona commerce authority under section 41-1519 or an authorized
21 agent of the owner, operator or qualified colocation tenant during the
22 qualification period for use in the qualified computer data center. For
23 the purposes of this paragraph, "computer data center", "computer data
24 center equipment", "qualification period" and "qualified colocation
25 tenant" have the same meanings prescribed in section 41-1519.

26 14. The gross proceeds of sales or gross income derived from a
27 contract with the owner of real property or improvements to real property
28 for the maintenance, repair, replacement or alteration of existing
29 property, except as specified in this paragraph. The gross proceeds of
30 sales or gross income derived from a de minimis amount of modification
31 activity does not subject the contract or any part of the contract to tax.
32 For the purposes of this paragraph:

33 (a) Each contract is independent of another contract, except that
34 any change order that directly relates to the scope of work of the
35 original contract shall be treated the same as the original contract under
36 this paragraph, regardless of the amount of modification activities
37 included in the change order. If a change order does not directly relate
38 to the scope of work of the original contract, the change order shall be
39 treated as a new contract, with the tax treatment of any subsequent change
40 order to follow the tax treatment of the contract to which the scope of
41 work of the subsequent change order directly relates.

42 (b) Any term not defined in this paragraph that is defined in
43 section 42-5075 has the same meaning prescribed in section 42-5075.

44 (c) This paragraph does not apply to a contract that primarily
45 involves surface or subsurface improvements to land and that is subject to

1 title 28, chapter 19, 20 or 22 or title 34, chapter 2 or 6 even if the
2 contract also includes vertical improvements. If a city or town imposes a
3 tax on contracts that are subject to procurement processes under those
4 provisions, the city or town shall include in the request for proposals a
5 notice to bidders when those projects are subject to the tax. This
6 subdivision does not apply to contracts with:

7 (i) Community facilities districts, fire districts, county
8 television improvement districts, community park maintenance districts,
9 cotton pest control districts, hospital districts, pest abatement
10 districts, health service districts, agricultural improvement districts,
11 county free library districts, county jail districts, county stadium
12 districts, special health care districts, public health services
13 districts, theme park districts or revitalization districts.

14 (ii) Any special taxing district not specified in item (i) of this
15 subdivision if the district does not substantially engage in the
16 modification, maintenance, repair, replacement or alteration of surface or
17 subsurface improvements to land.

18 15. Monitoring services relating to an alarm system as defined in
19 section 32-101.

20 16. Tangible personal property, job printing or publications sold
21 to or purchased by, or tangible personal property leased, rented or
22 licensed for use to or by, a qualifying health sciences educational
23 institution as defined in section 42-5001.

24 17. The transfer of title or possession of coal back and forth
25 between an owner or operator of a power plant and a person who is
26 responsible for refining coal if both of the following apply:

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

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

35 18. Tangible personal property incorporated or fabricated into a
36 project described in paragraph 14 of this subsection, that is located
37 within the exterior boundaries of an Indian reservation for which the
38 owner, as defined in section 42-5075, of the project is an Indian tribe or
39 an affiliated Indian. For the purposes of this paragraph:

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

43 (b) "Indian reservation" means all lands that are within the limits
44 of areas set aside by the United States for the exclusive use and
45 occupancy of an Indian tribe by treaty, law or executive order and that

1 are recognized as Indian reservations by the United States department of
2 the interior.

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

7 19. The charges for the leasing or renting of space to make
8 attachments to utility poles as follows:

9 (a) By a person that is engaged in the business of providing or
10 furnishing electrical services or telecommunication services or that is a
11 cable operator.

12 (b) To a person that is engaged in the business of providing or
13 furnishing electrical services or telecommunication services or that is a
14 cable operator.

15 20. Until March 1, 2017, the gross proceeds of sales or gross
16 income derived from entry fees paid by participants for events that
17 consist of a run, walk, swim or bicycle ride or a similar event, or any
18 combination of these events.

19 21. The gross proceeds of sales or gross income derived from entry
20 fees paid by participants for events that are operated or conducted by
21 nonprofit organizations that are exempt from taxation under section
22 501(c)(3) of the internal revenue code and of which no part of the
23 organization's net earnings inures to the benefit of any private
24 shareholder or individual, if the event consists of a run, walk, swim or
25 bicycle ride or a similar event, or any combination of these events.

26 22. THROUGH DECEMBER 31, 2027, THE GROSS PROCEEDS OF SALES OR GROSS
27 INCOME FROM SALES OF TAMPONS, SANITARY NAPKINS, MENSTRUAL SPONGES,
28 MENSTRUAL CUPS AND SIMILAR ITEMS USED FOR FEMININE HYGIENE.

29 23. THROUGH DECEMBER 31, 2027, THE GROSS PROCEEDS OF SALES OR GROSS
30 INCOME FROM SALES OF DISPOSABLE DIAPERS AND OTHER SIMILAR DISPOSABLE ITEMS
31 COMMONLY USED BY INDIVIDUALS FOR INCONTINENCE.

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

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

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

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

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

6 4. Incarcerating or detaining in a privately operated prison, jail
7 or detention facility prisoners who are under the jurisdiction of the
8 United States, this state or any other state or a political subdivision of
9 this state or of any other state.

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

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

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

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

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

31 7. Any amount attributable to fees collected by transportation
32 network companies issued a permit pursuant to section 28-9552.

33 8. Transporting for hire persons by transportation network company
34 drivers on transactions involving transportation network services as
35 defined in section 28-9551.

36 9. Transporting for hire persons by vehicle for hire companies that
37 are issued permits pursuant to section 28-9503.

38 10. Transporting for hire persons by vehicle for hire drivers on
39 transactions involving vehicle for hire services as defined in section
40 28-9501.

41 D. A city, town or other taxing jurisdiction shall not levy a
42 transaction privilege, sales, use, franchise or other similar tax or fee,
43 however denominated, in excess of one-tenth of one percent of the value of
44 the entire product mined, smelted, extracted, refined, produced or
45 prepared for sale, profit or commercial use, on persons engaged in the

1 business of mineral processing, except to the extent that the tax is
2 computed on the gross proceeds or gross income from sales at retail.

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

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

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

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

13 G. For the purposes of this section:

14 1. "Cable operator" has the same meaning prescribed in section
15 9-505.

16 2. "Electrical services" means transmitting or distributing
17 electricity, electric lights, current or power over lines, wires or
18 cables.

19 3. "Telecommunication services" means transmitting or relaying
20 sound, visual image, data, information, images or material over lines,
21 wires or cables by radio signal, light beam, telephone, telegraph or other
22 electromagnetic means.

23 4. "Utility pole" means any wooden, metal or other pole used for
24 utility purposes and the pole's appurtenances that are attached or
25 authorized for attachment by the person controlling the pole.

26 Sec. 5. Section 42-6004, Arizona Revised Statutes, as amended by
27 Laws 2018, chapter 17, section 1, chapter 249, section 6, chapter 263,
28 section 3 and chapter 341, section 2, is amended to read:

29 42-6004. Exemption from municipal tax; definitions

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

32 1. Exhibition events in this state sponsored, conducted or operated
33 by a nonprofit organization that is exempt from taxation under section
34 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the
35 organization is associated with a major league baseball team or a national
36 touring professional golfing association and no part of the organization's
37 net earnings inures to the benefit of any private shareholder or
38 individual. This paragraph does not apply to an organization that is
39 owned, managed or controlled, in whole or in part, by a major league
40 baseball team, or its owners, officers, employees or agents, or by a major
41 league baseball association or professional golfing association, or its
42 owners, officers, employees or agents, unless the organization conducted
43 or operated exhibition events in this state before January 1, 2018 that
44 were exempt from state transaction privilege tax under section 42-5073.

- 1 2. Interstate telecommunications services, which include that
2 portion of telecommunications services, such as subscriber line service,
3 allocable by 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 motor vehicle dealer ships or delivers the motor
7 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. Orthodontic devices dispensed by a dental professional who is
11 licensed under title 32, chapter 11 to a patient as part of the practice
12 of dentistry.
- 13 8. Sales of internet access services to the person's subscribers
14 and customers. For the purposes of this paragraph:
- 15 (a) "Internet" means the computer and telecommunications facilities
16 that comprise the interconnected worldwide network of networks that employ
17 the transmission control protocol or internet protocol, or any predecessor
18 or successor protocol, to communicate information of all kinds by wire or
19 radio.
- 20 (b) "Internet access" means a service that enables users to access
21 content, information, electronic mail or other services over the internet.
22 Internet access does not include telecommunication services provided by a
23 common carrier.
- 24 9. The gross proceeds of sales or gross income retained by the
25 Arizona exposition and state fair board from ride ticket sales at the
26 annual Arizona state fair.
- 27 10. Leasing real property between affiliated companies, businesses,
28 persons or reciprocal insurers. For the purposes of this paragraph:
- 29 (a) "Affiliated companies, businesses, persons or reciprocal
30 insurers" means the lessor holds a controlling interest in the lessee, the
31 lessee holds a controlling interest in the lessor, affiliated persons hold
32 a controlling interest in both the lessor and the lessee, or an unrelated
33 person holds a controlling interest in both the lessor and lessee.
- 34 (b) "Affiliated persons" means members of the individual's family
35 or persons who have ownership or control of a business entity.
- 36 (c) "Controlling interest" means direct or indirect ownership of at
37 least eighty percent of the voting shares of a corporation or of the
38 interests in a company, business or person other than a corporation.
- 39 (d) "Members of the individual's family" means the individual's
40 spouse and brothers and sisters, whether by whole or half blood, including
41 adopted persons, ancestors and lineal descendants.
- 42 (e) "Reciprocal insurer" has the same meaning prescribed in section
43 20-762.
- 44 11. The gross proceeds of sales or gross income derived from a
45 contract for the installation, assembly, repair or maintenance of

1 machinery, equipment or other tangible personal property that is described
2 in section 42-5061, subsection B and that has independent functional
3 utility, pursuant to the following provisions:

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

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

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

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

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

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

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

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

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

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

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

40 12. The leasing or renting of certified ignition interlock devices
41 installed pursuant to the requirements prescribed by section 28-1461. For
42 the purposes of this paragraph, "certified ignition interlock device" has
43 the same meaning prescribed in section 28-1301.

44 13. Computer data center equipment sold to the owner, operator or
45 qualified colocation tenant of a computer data center that is certified by

1 the Arizona commerce authority under section 41-1519 or an authorized
 2 agent of the owner, operator or qualified colocation tenant during the
 3 qualification period for use in the qualified computer data center. For
 4 the purposes of this paragraph, "computer data center", "computer data
 5 center equipment", "qualification period" and "qualified colocation
 6 tenant" have the same meanings prescribed in section 41-1519.

7 14. The gross proceeds of sales or gross income derived from a
 8 contract with the owner of real property or improvements to real property
 9 for the maintenance, repair, replacement or alteration of existing
 10 property, except as specified in this paragraph. The gross proceeds of
 11 sales or gross income derived from a de minimis amount of modification
 12 activity does not subject the contract or any part of the contract to tax.
 13 For the purposes of this paragraph:

14 (a) Each contract is independent of another contract, except that
 15 any change order that directly relates to the scope of work of the
 16 original contract shall be treated the same as the original contract under
 17 this paragraph, regardless of the amount of modification activities
 18 included in the change order. If a change order does not directly relate
 19 to the scope of work of the original contract, the change order shall be
 20 treated as a new contract, with the tax treatment of any subsequent change
 21 order to follow the tax treatment of the contract to which the scope of
 22 work of the subsequent change order directly relates.

23 (b) Any term not defined in this paragraph that is defined in
 24 section 42-5075 has the same meaning prescribed in section 42-5075.

25 (c) This paragraph does not apply to a contract that primarily
 26 involves surface or subsurface improvements to land and that is subject to
 27 title 28, chapter 19, 20 or 22 or title 34, chapter 2 or 6 even if the
 28 contract also includes vertical improvements. If a city or town imposes a
 29 tax on contracts that are subject to procurement processes under those
 30 provisions, the city or town shall include in the request for proposals a
 31 notice to bidders when those projects are subject to the tax. This
 32 subdivision does not apply to contracts with:

33 (i) Community facilities districts, fire districts, county
 34 television improvement districts, community park maintenance districts,
 35 cotton pest control districts, hospital districts, pest abatement
 36 districts, health service districts, agricultural improvement districts,
 37 county free library districts, county jail districts, county stadium
 38 districts, special health care districts, public health services
 39 districts, theme park districts or revitalization districts.

40 (ii) Any special taxing district not specified in item (i) of this
 41 subdivision if the district does not substantially engage in the
 42 modification, maintenance, repair, replacement or alteration of surface or
 43 subsurface improvements to land.

44 15. Monitoring services relating to an alarm system as defined in
 45 section 32-101.

1 16. Tangible personal property, job printing or publications sold
2 to or purchased by, or tangible personal property leased, rented or
3 licensed for use to or by, a qualifying health sciences educational
4 institution as defined in section 42-5001.

5 17. The sale of coal.

6 18. Tangible personal property incorporated or fabricated into a
7 project described in paragraph 14 of this subsection, that is located
8 within the exterior boundaries of an Indian reservation for which the
9 owner, as defined in section 42-5075, of the project is an Indian tribe or
10 an affiliated Indian. For the purposes of this paragraph:

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

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

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

23 19. The charges for the leasing or renting of space to make
24 attachments to utility poles as follows:

25 (a) By a person that is engaged in the business of providing or
26 furnishing electrical services or telecommunication services or that is a
27 cable operator.

28 (b) To a person that is engaged in the business of providing or
29 furnishing electrical services or telecommunication services or that is a
30 cable operator.

31 20. Until March 1, 2017, the gross proceeds of sales or gross
32 income derived from entry fees paid by participants for events that
33 consist of a run, walk, swim or bicycle ride or a similar event, or any
34 combination of these events.

35 21. The gross proceeds of sales or gross income derived from entry
36 fees paid by participants for events that are operated or conducted by
37 nonprofit organizations that are exempt from taxation under section
38 501(c)(3) of the internal revenue code and of which no part of the
39 organization's net earnings inures to the benefit of any private
40 shareholder or individual, if the event consists of a run, walk, swim or
41 bicycle ride or a similar event, or any combination of these events.

42 22. THROUGH DECEMBER 31, 2027, THE GROSS PROCEEDS OF SALES OR GROSS
43 INCOME FROM SALES OF TAMPONS, SANITARY NAPKINS, MENSTRUAL SPONGES,
44 MENSTRUAL CUPS AND SIMILAR ITEMS USED FOR FEMININE HYGIENE.

1 23. THROUGH DECEMBER 31, 2027, THE GROSS PROCEEDS OF SALES OR GROSS
2 INCOME FROM SALES OF DISPOSABLE DIAPERS AND OTHER SIMILAR DISPOSABLE ITEMS
3 COMMONLY USED BY INDIVIDUALS FOR INCONTINENCE.

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

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

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

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

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

22 4. Incarcerating or detaining in a privately operated prison, jail
23 or detention facility prisoners who are under the jurisdiction of the
24 United States, this state or any other state or a political subdivision of
25 this state or of any other state.

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

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

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

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

42 (c) "Development fees" means fees imposed to offset capital costs
43 of providing public infrastructure, public safety or other public services
44 to a development and authorized pursuant to section 9-463.05, section

1 11-1102 or title 48 regardless of the jurisdiction to which the fees are
2 paid.

3 7. Any amount attributable to fees collected by transportation
4 network companies issued a permit pursuant to section 28-9552.

5 8. Transporting for hire persons by transportation network company
6 drivers on transactions involving transportation network services as
7 defined in section 28-9551.

8 9. Transporting for hire persons by vehicle for hire companies that
9 are issued permits pursuant to section 28-9503.

10 10. Transporting for hire persons by vehicle for hire drivers on
11 transactions involving vehicle for hire services as defined in section
12 28-9501.

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

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

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

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

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

30 G. For the purposes of this section:

31 1. "Cable operator" has the same meaning prescribed in section
32 9-505.

33 2. "Electrical services" means transmitting or distributing
34 electricity, electric lights, current or power over lines, wires or
35 cables.

36 3. "Telecommunication services" means transmitting or relaying
37 sound, visual image, data, information, images or material over lines,
38 wires or cables by radio signal, light beam, telephone, telegraph or other
39 electromagnetic means.

40 4. "Utility pole" means any wooden, metal or other pole used for
41 utility purposes and the pole's appurtenances that are attached or
42 authorized for attachment by the person controlling the pole.

1 Sec. 6. Section 42-6015, Arizona Revised Statutes, is amended to
2 read:

3 42-6015. Municipal transaction privilege tax; food; exemption

4 A. If a city, town or other taxing jurisdiction imposes a
5 transaction privilege, sales, use, franchise or other similar tax or fee,
6 however denominated, on:

7 1. The sale of food items intended for human consumption as defined
8 by rule adopted pursuant to section 42-5106 or items prescribed by section
9 42-5106, subsection D for home consumption, the tax must be applied
10 uniformly with respect to all food, and an additional tax or fee
11 differential may not be assessed or applied with respect to any specific
12 food item.

13 2. The sale of food items intended for human consumption as defined
14 by rule adopted pursuant to section 42-5106 or items prescribed by section
15 42-5106, subsection D for consumption on the premises, the tax must be
16 applied uniformly with respect to all food items, and an additional tax or
17 fee differential may not be assessed or applied with respect to any
18 specific food item.

19 B. A city, town or other taxing jurisdiction may not levy a
20 transaction privilege, sales, use, franchise or other similar tax or fee,
21 however denominated, with respect to:

22 1. The manufacture, wholesale or distribution to or among any
23 wholesalers, distributors or retailers, of food items intended for human
24 consumption as defined by rule adopted pursuant to section 42-5106 or
25 items prescribed by section 42-5106, subsection D for home consumption or
26 for consumption on the premises.

27 2. Any container or packaging used exclusively for transporting,
28 protecting or consuming food items intended for human consumption as
29 defined by rule adopted pursuant to section 42-5106 or items prescribed by
30 section 42-5106, subsection D for home consumption or for consumption on
31 the premises.

32 3. The sale of food or other items purchased with United States
33 department of agriculture food stamp coupons issued under the food stamp
34 act of 1977 (P.L. 95-113; 91 Stat. 958) or food instruments issued under
35 section 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603;
36 P.L. 99-661, section 4302; 42 United States Code section 1786) but may
37 impose such a tax consistent with this section on other sales of food.

38 4. The sale of low or reduced-cost articles of food or drink to
39 eligible elderly or homeless persons or persons with a disability by a
40 business subject to tax under the restaurant classification pursuant to
41 section 42-5074 that contracts with the department of economic security
42 and that is approved by the food and nutrition service of the United
43 States department of agriculture pursuant to the supplemental nutrition
44 assistance program established by the food and nutrition act of 2008
45 (7 United States Code sections 2011 through 2036c), if the purchases are

1 made with the benefits issued pursuant to the supplemental nutrition
2 assistance program.

3 5. THROUGH DECEMBER 31, 2027, THE SALE OF BABY FORMULA.

4 Sec. 7. Conditional enactment

5 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2018,
6 chapter 104, section 15, chapter 249, section 1 and chapter 263, section 1
7 and this act, and section 42-6004, Arizona Revised Statutes, as amended by
8 Laws 2018, chapter 17, section 1, chapter 249, section 6, chapter 263,
9 section 3 and chapter 341, section 2 and this act, become effective on the
10 date prescribed by Laws 2018, chapter 263, section 5 but only on the
11 occurrence of the condition prescribed by Laws 2018, chapter 263,
12 section 5.