SB 1016

Introduced by
Senator Borrelli

AN ACT

AMENDING SECTIONS 36-2806 AND 42-5010, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2019, CHAPTER 273, SECTION 7 AND CHAPTER 288, SECTION 1; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2019, CHAPTER 273, SECTION 8 AND CHAPTER 288, SECTION 2; AMENDING TITLE 42, CHAPTER 5, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5077; RELATING TO MEDICAL MARIJUANA.

(TEXT OF BILL BEGINS ON NEXT PAGE)
Be it enacted by the Legislature of the State of Arizona:

Section 1. Subject to the requirements of article IV, part 1, section 1, Constitution of Arizona, section 36-2806, Arizona Revised Statutes, is amended to read:

36-2806. Registered nonprofit medical marijuana dispensaries; requirements; rules; inspections; testing

A. A registered nonprofit medical marijuana dispensary shall be operated on a not-for-profit basis. The bylaws of a registered nonprofit medical marijuana dispensary shall contain such provisions relative to the disposition of revenues and receipts to establish and maintain its nonprofit character. A registered nonprofit medical marijuana dispensary need not be recognized as tax-exempt by the internal revenue service and is not required to incorporate pursuant to title 10, chapter 19, article 1.

B. The operating documents of a registered nonprofit medical marijuana dispensary shall include procedures for the oversight of the registered nonprofit medical marijuana dispensary and procedures to ensure accurate recordkeeping.

C. A registered nonprofit medical marijuana dispensary shall have a single secure entrance and shall implement appropriate security measures to deter and prevent the theft of marijuana and unauthorized entrance into areas containing marijuana.

D. A registered nonprofit medical marijuana dispensary is prohibited from acquiring, possessing, cultivating, manufacturing, delivering, transferring, transporting, supplying or dispensing marijuana for any purpose except to assist registered qualifying patients with the medical use of marijuana directly or through the registered qualifying patients' designated caregivers or an independent third-party laboratory agent or a certified independent third-party laboratory for the purposes prescribed in this chapter and department rule.

E. All cultivation of marijuana must take place in an enclosed, locked facility, at a physical address provided to the department during the registration process, that can be accessed only by registered nonprofit medical marijuana dispensary agents associated in the registry with the nonprofit medical marijuana dispensary.

F. A registered nonprofit medical marijuana dispensary may acquire usable marijuana or marijuana plants from a registered qualifying patient or a registered designated caregiver only if the registered qualifying patient or registered designated caregiver receives no compensation for the marijuana.

G. A nonprofit medical marijuana dispensary shall not allow any person to consume marijuana on the property of the nonprofit medical marijuana dispensary.
H. Registered nonprofit medical marijuana dispensaries are subject to reasonable inspection by the department. The department shall give reasonable notice of an inspection under this subsection.

I. Beginning November 1, 2020, registered nonprofit medical marijuana dispensaries are subject to product testing by certified independent third-party laboratories pursuant to this chapter and rules adopted pursuant to this chapter.

J. Notwithstanding title 13, chapter 34, an employee of the department or an independent third-party laboratory agent may not be charged with or prosecuted for possession of marijuana that is cultivated for medical use as required by this chapter and the rules adopted pursuant to this chapter.

K. THE DEPARTMENT OF HEALTH SERVICES MAY SUSPEND, REVOKE OR REFUSE TO RENEW THE REGISTRATION OF A NONPROFIT MEDICAL MARIJUANA DISPENSARY THAT DOES NOT COMPLY WITH THE TAX REQUIREMENTS OF TITLE 42 AS REPORTED BY THE DEPARTMENT.

Sec. 2. Section 42-5010, Arizona Revised Statutes, is amended to read:

42-5010. Rates; distribution base
A. The tax imposed by this article is levied and shall be collected at the following rates:
1. Five percent of the tax base as computed for the business of every person engaging or continuing in this state in the following business classifications described in article 2 of this chapter:
   (a) Transporting classification.
   (b) Utilities classification.
   (c) Telecommunications classification.
   (d) Pipeline classification.
   (e) Private car line classification.
   (f) Publication classification.
   (g) Job printing classification.
   (h) Prime contracting classification.
   (i) Amusement classification.
   (j) Restaurant classification.
   (k) Personal property rental classification.
   (l) Retail classification and amounts equal to retail transaction privilege tax due pursuant to section 42-5008.01.
   (m) MEDICAL MARIJUANA CLASSIFICATION.
2. Five and one-half percent of the tax base as computed for the business of every person engaging or continuing in this state in:
   (a) The transient lodging classification described in section 42-5070.
   (b) The online lodging marketplace classification described in section 42-5076 who has entered into an agreement with the department to
register for, or has otherwise obtained from the department, a license to
collect tax pursuant to section 42-5005, subsection L.

3. Three and one-eighth percent of the tax base as computed for the
business of every person engaging or continuing in this state in the
mining classification described in section 42-5072.

4. Zero percent of the tax base as computed for the business of
every person engaging or continuing in this state in the commercial lease
classification described in section 42-5069.

B. Except as provided by subsection J of this section, twenty
percent of the tax revenues collected at the rate prescribed by subsection
A, paragraph 1 of this section from persons on account of engaging in
business under the business classifications listed in subsection A,
paragraph 1, subdivisions (a) through (h) of this section is designated as
distribution base for purposes of section 42-5029.

C. Forty percent of the tax revenues collected at the rate
prescribed by subsection A, paragraph 1 of this section from persons on
account of engaging in business under the business classifications listed
in subsection A, paragraph 1, subdivisions (i) through (l) of this section
is designated as distribution base for purposes of section 42-5029.

D. Thirty-two percent of the tax revenues collected from persons on
account of engaging in business under the business classification listed
in subsection A, paragraph 3 of this section is designated as distribution
base for purposes of section 42-5029.

E. Fifty-three and one-third percent of the tax revenues collected
from persons on account of engaging in business under the business
classification listed in subsection A, paragraph 4 of this section is
designated as distribution base for purposes of section 42-5029.

F. Fifty percent of the tax revenues collected from persons on
account of engaging in business under the business classification listed
in subsection A, paragraph 2 of this section is designated as distribution
base for purposes of section 42-5029.

G. In addition to the rates prescribed by subsection A of this
section, if approved by the qualified electors voting at a statewide
general election, an additional rate increment is imposed and shall be
collected through June 30, 2021. The taxpayer shall pay taxes pursuant to
this subsection at the same time and in the same manner as under
subsection A of this section. The department shall separately account for
the revenues collected with respect to the rates imposed pursuant to this
subsection and the state treasurer shall distribute all of those revenues
in the manner prescribed by section 42-5029, subsection E. The rates
imposed pursuant to this subsection shall not be considered local revenues
for purposes of article IX, section 21, Constitution of Arizona. The
additional tax rate increment is levied at the rate of six-tenths of one
per cent of the tax base of every person engaging or continuing in this
state in a business classification listed in subsection A, paragraph 1 of this section.

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

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

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

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

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

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

Sec. 3. Section 42-5061, Arizona Revised Statutes, as amended by Laws 2019, chapter 273, section 7 and chapter 288, section 1, is amended to read:

42-5061. Retail classification; definitions
A. The retail classification is comprised of the business of selling tangible personal property at retail. The tax base for the retail
classification is the gross proceeds of sales or gross income derived from
the business. The tax imposed on the retail classification does not apply
to the gross proceeds of sales or gross income from:

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

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

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

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

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

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

7. The sale of stocks and bonds.

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

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

10. Insulin, insulin syringes and glucose test strips.

11. Prescription eyeglasses or contact lenses.

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

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

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

15. Food, as provided in and subject to the conditions of article 3
of this chapter and sections 42-5074 and 42-6017.

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

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

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

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

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

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

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

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

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

(b) "Monetized bullion" means coins and other forms of money that are manufactured from gold, silver or other metals and that have been or are used as a medium of exchange in this or another state, the United States or a foreign nation.
"Precious metal bullion" means precious metal, including gold, silver, platinum, rhodium and palladium, that has been smelted or refined so that its value depends on its contents and not on its form.

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

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

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

25. Tangible personal property sold to:
   (a) A qualifying hospital as defined in section 42-5001.
   (b) A qualifying health care organization as defined in section 42-5001 if the tangible personal property is used by the organization solely to provide health and medical related educational and charitable services.
   (c) A qualifying health care organization as defined in section 42-5001 if the organization is dedicated to providing educational, therapeutic, rehabilitative and family medical education training for blind and visually impaired children and children with multiple disabilities from the time of birth to age twenty-one.
   (d) A qualifying community health center as defined in section 42-5001.
   (e) A nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that regularly serves meals to the needy and indigent on a continuing basis at no cost.
   (f) For taxable periods beginning from and after June 30, 2001, a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that provides residential apartment housing for **low-income** persons over sixty-two years of age in a facility that qualifies for a federal housing subsidy, if the tangible personal property is used by the organization solely to provide residential apartment housing for **low-income** persons over sixty-two years of age in a facility that qualifies for a federal housing subsidy.
   (g) A qualifying health sciences educational institution as defined in section 42-5001.
   (h) Any person representing or working on behalf of another person described in subdivisions (a) through (g) of this paragraph if the
tangible personal property is incorporated or fabricated into a project described in section 42-5075, subsection 0.

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

27. Tangible personal property sold to:
   (a) A person that is subject to tax under this article by reason of being engaged in business classified under section 42-5075 or to a subcontractor working under the control of a person engaged in business classified under section 42-5075, if the property so sold is any of the following:
      (i) Incorporated or fabricated by the person into any real property, structure, project, development or improvement as part of the business.
      (ii) Incorporated or fabricated by the person into any project described in section 42-5075, subsection 0.
      (iii) Used in environmental response or remediation activities under section 42-5075, subsection B, paragraph 6.
   (b) A person that is not subject to tax under section 42-5075 and that has been provided a copy of a certificate under section 42-5009, subsection L, if the property so sold is incorporated or fabricated by the person into the real property, structure, project, development or improvement described in the certificate.

28. The sale of a motor vehicle to:
   (a) A nonresident of this state if the purchaser's state of residence does not allow a corresponding use tax exemption to the tax imposed by article 1 of this chapter and if the nonresident has secured a special ninety day nonresident registration permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01.
   (b) An enrolled member of an Indian tribe who resides on the Indian reservation established for that tribe.

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

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

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

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

33. Sales of propagative materials to persons who use those items to commercially produce agricultural, horticultural, viticultural or floricultural crops in this state. For the purposes of this paragraph, "propagative materials":

(a) Includes seeds, seedlings, roots, bulbs, liners, transplants, cuttings, soil and plant additives, agricultural minerals, auxiliary soil and plant substances, micronutrients, fertilizers, insecticides, herbicides, fungicides, soil fumigants, desiccants, rodenticides, adjuvants, plant nutrients and plant growth regulators.

(b) Except for use in commercially producing industrial hemp as defined in section 3-311, does not include any propagative materials used in producing any part, including seeds, of any plant of the genus cannabis.

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

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

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

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

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

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

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

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

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

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

42. Sales of:

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

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

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

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

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

47. Sales of materials that are purchased by or for publicly funded libraries, including school district libraries, charter school libraries, community college libraries, state university libraries or federal, state, county or municipal libraries, for use by the public as follows:
   (a) Printed or photographic materials, beginning August 7, 1985.
   (b) Electronic or digital media materials, beginning July 17, 1994.

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

49. Sales of alternative fuel vehicles if the vehicle was manufactured as a diesel fuel vehicle and converted to operate on alternative fuel and equipment that is installed in a conventional diesel fuel motor vehicle to convert the vehicle to operate on an alternative fuel, as defined in section 1-215.
50. Sales of any spirituous, vinous or malt liquor by a person that
is licensed in this state as a wholesaler by the department of liquor
licenses and control pursuant to title 4, chapter 2, article 1.

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

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

53. Application services that are designed to assess or test
student learning or to promote curriculum design or enhancement purchased
by or for any school district, charter school, community college or state
university. For the purposes of this paragraph:
   (a) "Application services" means software applications provided
       remotely using hypertext transfer protocol or another network protocol.
   (b) "Curriculum design or enhancement" means planning, implementing
       or reporting on courses of study, lessons, assignments or other learning
       activities.

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

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

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

57. Computer data center equipment sold to the owner, operator or
qualified colocation tenant of a computer data center that is certified by
the Arizona commerce authority under section 41-1519 or an authorized
agent of the owner, operator or qualified colocation tenant during the
qualification period for use in the qualified computer data center. For
the purposes of this paragraph, "computer data center", "computer data
center equipment", "qualification period" and "qualified colocation
tenant" have the same meanings prescribed in section 41-1519.
58. Orthodontic devices dispensed by a dental professional who is licensed under title 32, chapter 11 to a patient as part of the practice of dentistry.

59. Sales of tangible personal property incorporated or fabricated into a project described in section 42-5075, subsection O, that is located within the exterior boundaries of an Indian reservation for which the owner, as defined in section 42-5075, of the project is an Indian tribe or an affiliated Indian. For the purposes of this paragraph:
   (a) "Affiliated Indian" means an individual native American Indian who is duly registered on the tribal rolls of the Indian tribe for whose benefit the Indian reservation was established.
   (b) "Indian reservation" means all lands that are within the limits of areas set aside by the United States for the exclusive use and occupancy of an Indian tribe by treaty, law or executive order and that are recognized as Indian reservations by the United States department of the interior.
   (c) "Indian tribe" means any organized nation, tribe, band or community that is recognized as an Indian tribe by the United States department of the interior and includes any entity formed under the laws of the Indian tribe.

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

61. Sales of tangible personal property by a marketplace seller that are facilitated by a marketplace facilitator in which the marketplace facilitator has remitted or will remit the applicable tax to the department pursuant to section 42-5014.

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

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

2. Mining machinery, or equipment, used directly in the process of extracting ores or minerals from the earth for commercial purposes, including equipment required to prepare the materials for extraction and handling, loading or transporting such extracted material to the surface. "Mining" includes underground, surface and open pit operations for extracting ores and minerals.
3. Tangible personal property sold to persons engaged in business classified under the telecommunications classification, including a person representing or working on behalf of such a person in a manner described in section 42-5075, subsection 0, and consisting of central office switching equipment, switchboards, private branch exchange equipment, microwave radio equipment and carrier equipment including optical fiber, coaxial cable and other transmission media that are components of carrier systems.

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

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

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

7. Aircraft, navigational and communication instruments and other accessories and related equipment sold to:
   (a) A person:
      (i) Holding, or exempted by federal law from obtaining, a federal certificate of public convenience and necessity for use as, in conjunction with or becoming part of an aircraft to be used to transport persons for hire in intrastate, interstate or foreign commerce.
      (ii) That is certificated or licensed under federal aviation administration regulations (14 Code of Federal Regulations part 121 or 135) as a scheduled or unscheduled carrier of persons for hire for use as or in conjunction with or becoming part of an aircraft to be used to transport persons for hire in intrastate, interstate or foreign commerce.
      (iii) Holding a foreign air carrier permit for air transportation for use as or in conjunction with or becoming a part of aircraft to be used to transport persons, property or United States mail in intrastate, interstate or foreign commerce.
      (iv) Operating an aircraft to transport persons in any manner for compensation or hire, or for use in a fractional ownership program that meets the requirements of federal aviation administration regulations (14 Code of Federal Regulations part 91, subpart K), including as an air carrier, a foreign air carrier or a commercial operator or under a restricted category, within the meaning of 14 Code of Federal Regulations, regardless of whether the operation or aircraft is regulated or certified.
under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code of Federal Regulations.

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

(b) Any foreign government.

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

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

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

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

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


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

(a) "New machinery and equipment" means machinery and equipment that have never been sold at retail except pursuant to leases or rentals that do not total two years or more.
(b) "Self-powered implements" includes machinery and equipment that are electric-powered.

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

15. Tangible personal property that is used by either of the following to receive, store, convert, produce, generate, decode, encode, control or transmit telecommunications information:
   (a) Any direct broadcast satellite television or data transmission service that operates pursuant to 47 Code of Federal Regulations part 25.
   (b) Any satellite television or data transmission facility, if both of the following conditions are met:
      (i) Over two-thirds of the transmissions, measured in megabytes, transmitted by the facility during the test period were transmitted to or on behalf of one or more direct broadcast satellite television or data transmission services that operate pursuant to 47 Code of Federal Regulations part 25.
      (ii) Over two-thirds of the transmissions, measured in megabytes, transmitted by or on behalf of those direct broadcast satellite television or data transmission services during the test period were transmitted by the facility to or on behalf of those services. For the purposes of subdivision (b) of this paragraph, "test period" means the three hundred sixty-five day period beginning on the later of the date on which the tangible personal property is purchased or the date on which the direct broadcast satellite television or data transmission service first transmits information to its customers.

16. Clean rooms that are used for manufacturing, processing, fabrication or research and development, as defined in paragraph 14 of this subsection, of semiconductor products. For the purposes of this paragraph, "clean room" means all property that comprises or creates an environment where humidity, temperature, particulate matter and contamination are precisely controlled within specified parameters, without regard to whether the property is actually contained within that environment or whether any of the property is affixed to or incorporated into real property. Clean room:
(a) Includes the integrated systems, fixtures, piping, movable
partitions, lighting and all property that is necessary or adapted to
reduce contamination or to control airflow, temperature, humidity,
chemical purity or other environmental conditions or manufacturing
tolerances, as well as the production machinery and equipment operating in
conjunction with the clean room environment.

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

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

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

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

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

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

(b) Machinery or equipment purchased to replace machinery or
equipment for which an exemption was previously claimed and taken under
this paragraph.
(c) Any machinery or equipment purchased after the television station has ceased analog broadcasting, or purchased after November 1, 2009, whichever occurs first.

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

C. The deductions provided by subsection B of this section do not include sales of:
   1. Expendable materials. For the purposes of this paragraph, expendable materials do not include any of the categories of tangible personal property specified in subsection B of this section regardless of the cost or useful life of that property.
   2. Janitorial equipment and hand tools.
   3. Office equipment, furniture and supplies.
   4. Tangible personal property used in selling or distributing activities, other than the telecommunications transmissions described in subsection B, paragraph 15 of this section.
   5. Motor vehicles required to be licensed by this state, except buses or other urban mass transit vehicles specifically exempted pursuant to subsection B, paragraph 11 of this section, without regard to the use of such motor vehicles.
   6. Shops, buildings, docks, depots and all other materials of whatever kind or character not specifically included as exempt.
   7. Motors and pumps used in drip irrigation systems.
   8. Machinery and equipment or other tangible personal property used by a contractor in the performance of a contract.

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

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

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

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

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

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

2. Businesses classified under the:
   (a) Transporting classification.
   (b) Utilities classification.
   (c) Telecommunications classification.
   (d) Pipeline classification.
   (e) Private car line classification.
   (f) Publication classification.
   (g) Job printing classification.
   (h) Prime contracting classification.
   (i) Restaurant classification.

   (j) MEDICAL MARIJUANA CLASSIFICATION.

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

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

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

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

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

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

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

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

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

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

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

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

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

P. Retail sales of prepaid calling cards or prepaid authorization
numbers for telecommunications services, including sales of
reauthorization of a prepaid card or authorization number, are subject to
tax under this section.
Q. For the purposes of this section, the diversion of gas from a pipeline by a person engaged in the business of:

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

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

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

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

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

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

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

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

2. At professional football contests that are held in a stadium located on the campus of an institution under the jurisdiction of the Arizona board of regents.
U. In computing the tax base for the sale of a motor vehicle to a nonresident of this state, if the purchaser's state of residence allows a corresponding use tax exemption to the tax imposed by article I of this chapter and the rate of the tax in the purchaser's state of residence is lower than the rate prescribed in article I of this chapter or if the purchaser's state of residence does not impose an excise tax, and the nonresident has secured a special ninety day nonresident registration permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01, there shall be deducted from the tax base a portion of the gross proceeds or gross income from the sale so that the amount of transaction privilege tax that is paid in this state is equal to the excise tax that is imposed by the purchaser's state of residence on the nonexempt sale or use of the motor vehicle.

V. For the purposes of this section:
1. "Agricultural aircraft" means an aircraft that is built for agricultural use for the aerial application of pesticides or fertilizer or for aerial seeding.
2. "Aircraft" includes:
   a. An airplane flight simulator that is approved by the federal aviation administration for use as a phase II or higher flight simulator under appendix H, 14 Code of Federal Regulations part 121.
   b. Tangible personal property that is permanently affixed or attached as a component part of an aircraft that is owned or operated by a certificated or licensed carrier of persons or property.
3. "Other accessories and related equipment" includes aircraft accessories and equipment such as ground service equipment that physically contact aircraft at some point during the overall carrier operation.
4. "Selling at retail" means a sale for any purpose other than for resale in the regular course of business in the form of tangible personal property, but transfer of possession, lease and rental as used in the definition of sale mean only such transactions as are found on investigation to be in lieu of sales as defined without the words lease or rental.

W. For the purposes of subsection I of this section:
1. "Assembler" means a person who unites or combines products, wares or articles of manufacture so as to produce a change in form or substance without changing or altering the component parts.
2. "Manufacturer" means a person who is principally engaged in the fabrication, production, fabricating, producing or manufacturing products, wares or articles for use from raw or prepared materials, imparting to those materials new forms, qualities, properties and combinations.
3. "Modifier" means a person who reworks, changes or adds to products, wares or articles of manufacture.
4. "Overhead materials" means tangible personal property, the gross proceeds of sales or gross income derived from that would otherwise be included in the retail classification, and that are used or consumed in the performance of a contract, the cost of which is charged to an overhead expense account and allocated to various contracts based on generally accepted accounting principles and consistent with government contract accounting standards.

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

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

Sec. 4. Section 42-5061, Arizona Revised Statutes, as amended by Laws 2019, chapter 273, section 8 and chapter 288, section 2, is amended to read:

42-5061. Retail classification; definitions

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

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

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

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

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

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

6. Business activity that is properly included in any other business classification that is taxable under this article.
7. The sale of stocks and bonds.
8. Drugs and medical oxygen, including delivery hose, mask or tent, regulator and tank, on the prescription of IF PRESCRIBED BY a member of the medical, dental or veterinarian profession who is licensed by law to administer such substances.
9. Prosthetic appliances as defined in section 23-501 and as prescribed or recommended by a health professional who is licensed pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.
10. Insulin, insulin syringes and glucose test strips.
11. Prescription eyeglasses or contact lenses.
12. Hearing aids as defined in section 36-1901.
13. Durable medical equipment that has a centers for medicare and medicaid services common procedure code, is designated reimbursable by medicare, is prescribed by a person who is licensed under title 32, chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and customarily used to serve a medical purpose, is generally not useful to a person in the absence of illness or injury and is appropriate for use in the home.
14. Sales of motor vehicles to nonresidents of this state for use outside this state if the motor vehicle dealer ships or delivers the motor vehicle to a destination out of this state.
15. Food, as provided in and subject to the conditions of article 3 of this chapter and sections 42-5074 and 42-6017.
16. Items purchased with United States department of agriculture coupons issued under the supplemental nutrition assistance program pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703; 7 United States Code sections 2011 through 2036b) by the United States department of agriculture food and nutrition service or food instruments issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code section 1786).
17. Textbooks by any bookstore that are required by any state university or community college.
18. Food and drink to a person that is engaged in a business that is classified under the restaurant classification and that provides such food and drink without monetary charge to its employees for their own consumption on the premises during the employees' hours of employment.
19. Articles of food, drink or condiment and accessory tangible personal property to a school district or charter school if such articles and accessory tangible personal property are to be prepared and served to persons for consumption on the premises of a public school within the district or on the premises of the charter school during school hours.
20. Lottery tickets or shares pursuant to title 5, chapter 5.1, article 1.
21. The sale of cash equivalents and the sale of precious metal bullion and monetized bullion to the ultimate consumer, but the sale of coins or other forms of money for manufacture into jewelry or works of art is subject to the tax and the gross proceeds of sales or gross income derived from the redemption of any cash equivalent by the holder as a means of payment for goods or services that are taxable under this article is subject to the tax. For the purposes of this paragraph:
   (a) "Cash equivalents" means items or intangibles, whether or not negotiable, that are sold to one or more persons, through which a value denominated in money is purchased in advance and may be redeemed in full or in part for tangible personal property, intangibles or services. Cash equivalents include gift cards, stored value cards, gift certificates, vouchers, traveler's checks, money orders or other instruments, orders or electronic mechanisms, such as an electronic code, personal identification number or digital payment mechanism, or any other prepaid intangible right to acquire tangible personal property, intangibles or services in the future, whether from the seller of the cash equivalent or from another person. Cash equivalents do not include either of the following:
      (i) Items or intangibles that are sold to one or more persons, through which a value is not denominated in money.
      (ii) Prepaid calling cards or prepaid authorization numbers for telecommunications services made taxable by subsection P of this section.
   (b) "Monetized bullion" means coins and other forms of money that are manufactured from gold, silver or other metals and that have been or are used as a medium of exchange in this or another state, the United States or a foreign nation.
   (c) "Precious metal bullion" means precious metal, including gold, silver, platinum, rhodium and palladium, that has been smelted or refined so that its value depends on its contents and not on its form.

22. Motor vehicle fuel and use fuel that are subject to a tax imposed under title 28, chapter 16, article 1, sales of use fuel to a holder of a valid single trip use fuel tax permit issued under section 28-5739, sales of aviation fuel that are subject to the tax imposed under section 28-8344 and sales of jet fuel that are subject to the tax imposed under article 8 of this chapter.
23. Tangible personal property sold to a person engaged in the business of leasing or renting such property under the personal property rental classification if such property is to be leased or rented by such person.
24. Tangible personal property sold in interstate or foreign commerce if prohibited from being so taxed by the constitution of the United States or the constitution of this state.
25. Tangible personal property sold to:
   (a) A qualifying hospital as defined in section 42-5001.
   (b) A qualifying health care organization as defined in section 42-5001 if the tangible personal property is used by the organization solely to provide health and medical related educational and charitable services.
   (c) A qualifying health care organization as defined in section 42-5001 if the organization is dedicated to providing educational, therapeutic, rehabilitative and family medical education training for blind and visually impaired children and children with multiple disabilities from the time of birth to age twenty-one.
   (d) A qualifying community health center as defined in section 42-5001.
   (e) A nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that regularly serves meals to the needy and indigent on a continuing basis at no cost.
   (f) For taxable periods beginning from and after June 30, 2001, a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that provides residential apartment housing for low-income persons over sixty-two years of age in a facility that qualifies for a federal housing subsidy, if the tangible personal property is used by the organization solely to provide residential apartment housing for low-income persons over sixty-two years of age in a facility that qualifies for a federal housing subsidy.
   (g) A qualifying health sciences educational institution as defined in section 42-5001.
   (h) Any person representing or working on behalf of another person described in subdivisions (a) through (g) of this paragraph if the tangible personal property is incorporated or fabricated into a project described in section 42-5075, subsection 0.

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

27. Tangible personal property sold to:
   (a) A person that is subject to tax under this article by reason of being engaged in business classified under section 42-5075 or to a subcontractor working under the control of a person engaged in business classified under section 42-5075, if the property so sold is any of the following:
      (i) Incorporated or fabricated by the person into any real property, structure, project, development or improvement as part of the business.
      (ii) Incorporated or fabricated by the person into any project described in section 42-5075, subsection 0.
(iii) Used in environmental response or remediation activities under section 42-5075, subsection B, paragraph 6.

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

28. The sale of a motor vehicle to:
   (a) A nonresident of this state if the purchaser's state of residence does not allow a corresponding use tax exemption to the tax imposed by article 1 of this chapter and if the nonresident has secured a special ninety day nonresident registration permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01.
   (b) An enrolled member of an Indian tribe who resides on the Indian reservation established for that tribe.

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

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

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

32. Sales of tangible personal property by a nonprofit organization that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the organization sponsors or operates a rodeo featuring primarily farm and ranch animals and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.
33. Sales of propagative materials to persons who use those items to commercially produce agricultural, horticultural, viticultural or floricultural crops in this state. For the purposes of this paragraph, "propagative materials":
(a) Includes seeds, seedlings, roots, bulbs, liners, transplants, cuttings, soil and plant additives, agricultural minerals, auxiliary soil and plant substances, micronutrients, fertilizers, insecticides, herbicides, fungicides, soil fumigants, desiccants, rodenticides, adjuvants, plant nutrients and plant growth regulators.
(b) Except for use in commercially producing industrial hemp as defined in section 3-311, does not include any propagative materials used in producing any part, including seeds, of any plant of the genus cannabis.

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

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

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

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

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

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

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

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

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

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

42. Sales of:

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

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

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

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

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

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

47. Sales of materials that are purchased by or for publicly funded libraries, including school district libraries, charter school libraries, community college libraries, state university libraries or federal, state, county or municipal libraries, for use by the public as follows:
   (a) Printed or photographic materials, beginning August 7, 1985.
   (b) Electronic or digital media materials, beginning July 17, 1994.

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

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

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

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

52. Sales of tangible personal property by a nonprofit organization that is exempt from taxation under section 501(c)(6) of the internal revenue code if the organization produces, organizes or promotes cultural or civic related festivals or events and no part of the organization’s net earnings inures to the benefit of any private shareholder or individual.
53. Application services that are designed to assess or test student learning or to promote curriculum design or enhancement purchased by or for any school district, charter school, community college or state university. For the purposes of this paragraph:

(a) "Application services" means software applications provided remotely using hypertext transfer protocol or another network protocol.
(b) "Curriculum design or enhancement" means planning, implementing or reporting on courses of study, lessons, assignments or other learning activities.

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

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

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

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

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

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

(a) "Affiliated Indian" means an individual native American Indian who is duly registered on the tribal rolls of the Indian tribe for whose benefit the Indian reservation was established.
(b) "Indian reservation" means all lands that are within the limits of areas set aside by the United States for the exclusive use and occupancy of an Indian tribe by treaty, law or executive order and that are recognized as Indian reservations by the United States department of the interior.

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

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

61. Sales of coal.

62. Sales of tangible personal property by a marketplace seller that are facilitated by a marketplace facilitator in which the marketplace facilitator has remitted or will remit the applicable tax to the department pursuant to section 42-5014.

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

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

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

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

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

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

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

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

(a) A person:
   (i) Holding, or exempted by federal law from obtaining, a federal certificate of public convenience and necessity for use as, in conjunction with or becoming part of an aircraft to be used to transport persons for hire in intrastate, interstate or foreign commerce.
   (ii) That is certificated or licensed under federal aviation administration regulations (14 Code of Federal Regulations part 121 or 135) as a scheduled or unscheduled carrier of persons for hire for use as or in conjunction with or becoming part of an aircraft to be used to transport persons for hire in intrastate, interstate or foreign commerce.
   (iii) Holding a foreign air carrier permit for air transportation for use as or in conjunction with or becoming a part of aircraft to be used to transport persons, property or United States mail in intrastate, interstate or foreign commerce.
   (iv) Operating an aircraft to transport persons in any manner for compensation or hire, or for use in a fractional ownership program that meets the requirements of federal aviation administration regulations (14 Code of Federal Regulations part 91, subpart K), including as an air carrier, a foreign air carrier or a commercial operator or under a restricted category, within the meaning of 14 Code of Federal Regulations, regardless of whether the operation or aircraft is regulated or certified under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code of Federal Regulations.
   (v) That will lease or otherwise transfer operational control, within the meaning of federal aviation administration operations specification A008, or its successor, of the aircraft, instruments or accessories to one or more persons described in item (i), (ii), (iii) or (iv) of this subdivision, subject to section 42-5009, subsection Q.

(b) Any foreign government.

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

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

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

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

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


13. New machinery and equipment consisting of agricultural
aircraft, tractors, tractor-drawn implements, self-powered implements,
machinery and equipment necessary for extracting milk, and machinery and
equipment necessary for cooling milk and livestock, and drip irrigation
lines not already exempt under paragraph 6 of this subsection and that are
used for commercial production of agricultural, horticultural,
viticultural and floricultural crops and products in this state. For the
purposes of this paragraph:
    (a) "New machinery and equipment" means machinery and equipment
that have never been sold at retail except pursuant to leases or rentals
that do not total two years or more.
    (b) "Self-powered implements" includes machinery and equipment that
are electric-powered.

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

15. Tangible personal property that is used by either of the following to receive, store, convert, produce, generate, decode, encode, control or transmit telecommunications information:
   (a) Any direct broadcast satellite television or data transmission service that operates pursuant to 47 Code of Federal Regulations part 25.
   (b) Any satellite television or data transmission facility, if both of the following conditions are met:
       (i) Over two-thirds of the transmissions, measured in megabytes, transmitted by the facility during the test period were transmitted to or on behalf of one or more direct broadcast satellite television or data transmission services that operate pursuant to 47 Code of Federal Regulations part 25.
       (ii) Over two-thirds of the transmissions, measured in megabytes, transmitted by or on behalf of those direct broadcast television or data transmission services during the test period were transmitted by the facility to or on behalf of those services.
   For the purposes of subdivision (b) of this paragraph, "test period" means the three hundred sixty-five day period beginning on the later of the date on which the tangible personal property is purchased or the date on which the direct broadcast satellite television or data transmission service first transmits information to its customers.

16. Clean rooms that are used for manufacturing, processing, fabrication or research and development, as defined in paragraph 14 of this subsection, of semiconductor products. For the purposes of this paragraph, "clean room" means all property that comprises or creates an environment where humidity, temperature, particulate matter and contamination are precisely controlled within specified parameters, without regard to whether the property is actually contained within that environment or whether any of the property is affixed to or incorporated into real property. Clean room:
   (a) Includes the integrated systems, fixtures, piping, movable partitions, lighting and all property that is necessary or adapted to reduce contamination or to control airflow, temperature, humidity, chemical purity or other environmental conditions or manufacturing tolerances, as well as the production machinery and equipment operating in conjunction with the clean room environment.
   (b) Does not include the building or other permanent, nonremovable component of the building that houses the clean room environment.

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

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

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

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

(a) Repair or replacement parts purchased for the machinery or equipment described in this paragraph.
(b) Machinery or equipment purchased to replace machinery or equipment for which an exemption was previously claimed and taken under this paragraph.
(c) Any machinery or equipment purchased after the television station has ceased analog broadcasting, or purchased after November 1, 2009, whichever occurs first.

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

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

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

2. Janitorial equipment and hand tools.

3. Office equipment, furniture and supplies.

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

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

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

7. Motors and pumps used in drip irrigation systems.

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

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

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

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

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

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

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

2. Businesses classified under the:
   (a) Transporting classification.
   (b) Utilities classification.
   (c) Telecommunications classification.
   (d) Pipeline classification.
   (e) Private car line classification.
   (f) Publication classification.
   (g) Job printing classification.
   (h) Prime contracting classification.
   (i) Restaurant classification.
   (j) MEDICAL MARIJUANA CLASSIFICATION.

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

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

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

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

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

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

K. The department shall require every person claiming a deduction
provided by subsection I or J of this section to file on forms prescribed
L. In computing the tax base, gross proceeds of sales or gross income does not include:
   1. A manufacturer's cash rebate on the sales price of a motor vehicle if the buyer assigns the buyer's right in the rebate to the retailer.
   2. The waste tire disposal fee imposed pursuant to section 44-1302.
M. There shall be deducted from the tax base the amount received from sales of solar energy devices. The retailer shall register with the department as a solar energy retailer. By registering, the retailer acknowledges that it will make its books and records relating to sales of solar energy devices available to the department for examination.
N. In computing the tax base in the case of the sale or transfer of wireless telecommunications equipment as an inducement to a customer to enter into or continue a contract for telecommunications services that are taxable under section 42-5064, gross proceeds of sales or gross income does not include any sales commissions or other compensation received by the retailer as a result of the customer entering into or continuing a contract for the telecommunications services.
O. For the purposes of this section, a sale of wireless telecommunications equipment to a person who holds the equipment for sale or transfer to a customer as an inducement to enter into or continue a contract for telecommunications services that are taxable under section 42-5064 is considered to be a sale for resale in the regular course of business.
P. Retail sales of prepaid calling cards or prepaid authorization numbers for telecommunications services, including sales of reauthorization of a prepaid card or authorization number, are subject to tax under this section.
Q. For the purposes of this section, the diversion of gas from a pipeline by a person engaged in the business of:
   1. Operating a natural or artificial gas pipeline, for the sole purpose of fueling compressor equipment to pressurize the pipeline, is not a sale of the gas to the operator of the pipeline.
   2. Converting natural gas into liquefied natural gas, for the sole purpose of fueling compressor equipment used in the conversion process, is not a sale of gas to the operator of the compressor equipment.
R. If a seller is entitled to a deduction pursuant to subsection B, paragraph 15, subdivision (b) of this section, the department may require the purchaser to establish that the requirements of subsection B, paragraph 15, subdivision (b) of this section have been satisfied. If the purchaser cannot establish that the requirements of subsection B, paragraph 15, subdivision (b) of this section have been satisfied, the
purchaser is liable in an amount equal to any tax, penalty and interest that the seller would have been required to pay under article 1 of this chapter if the seller had not made a deduction pursuant to subsection B, paragraph 15, subdivision (b) of this section. Payment of the amount under this subsection exempts the purchaser from liability for any tax imposed under article 4 of this chapter and related to the tangible personal property purchased. The amount shall be treated as transaction privilege tax to the purchaser and as tax revenues collected from the seller to designate the distribution base pursuant to section 42-5029.

S. For the purposes of section 42-5032.01, the department shall separately account for revenues collected under the retail classification from businesses selling tangible personal property at retail:
1. On the premises of a multipurpose facility that is owned, leased or operated by the tourism and sports authority pursuant to title 5, chapter 8.
2. At professional football contests that are held in a stadium located on the campus of an institution under the jurisdiction of the Arizona board of regents.

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

U. For the purposes of this section:
1. "Agricultural aircraft" means an aircraft that is built for agricultural use for the aerial application of pesticides or fertilizer or for aerial seeding.
2. "Aircraft" includes:
   (a) An airplane flight simulator that is approved by the federal aviation administration for use as a phase II or higher flight simulator under appendix H, 14 Code of Federal Regulations part 121.
   (b) Tangible personal property that is permanently affixed or attached as a component part of an aircraft that is owned or operated by a certificated or licensed carrier of persons or property.
3. "Other accessories and related equipment" includes aircraft accessories and equipment such as ground service equipment that physically contact aircraft at some point during the overall carrier operation.
4. "Selling at retail" means a sale for any purpose other than for resale in the regular course of business in the form of tangible personal property, but transfer of possession, lease and rental as used in the definition of sale mean only such transactions as are found on investigation to be in lieu of sales as defined without the words lease or rental.

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

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

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

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

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

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

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

Sec. 5. Title 42, chapter 5, article 2, Arizona Revised Statutes, is amended by adding section 42-5077, to read:

42-5077. Medical marijuana classification; definition

A. THE MEDICAL MARIJUANA CLASSIFICATION IS COMPRISED OF THE BUSINESS OF SELLING MARIJUANA BY A NONPROFIT MEDICAL MARIJUANA DISPENSARY.

B. THE TAX BASE OF THE MEDICAL MARIJUANA CLASSIFICATION IS THE GROSS PROCEEDS OF SALES DERIVED FROM THE BUSINESS.

C. FOR THE PURPOSES OF THIS SECTION, "NONPROFIT MEDICAL MARIJUANA DISPENSARY" HAS THE SAME MEANING PRESCRIBED IN SECTION 36-2801.
Sec. 6. **Conditional enactment**

Section 42-5061, Arizona Revised Statutes, as amended by Laws 2019, chapter 273, section 8 and chapter 288, section 2 and this act, becomes effective on the date prescribed by Laws 2018, chapter 263, section 5, but only on the occurrence of the condition prescribed by Laws 2018, chapter 263, section 5.

Sec. 7. **Requirements for enactment; three-fourths vote**

Pursuant to article IV, part 1, section 1, Constitution of Arizona, section 36-2806, Arizona Revised Statutes, as amended by this act, is effective only on the affirmative vote of at least three-fourths of the members of each house of the legislature.