

State of Arizona  
Senate  
Fifty-fourth Legislature  
Second Regular Session  
2020

## **SENATE CONCURRENT RESOLUTION 1032**

A CONCURRENT RESOLUTION

ENACTING AND ORDERING THE SUBMISSION TO THE PEOPLE OF A MEASURE RELATING  
TO MEDICAL MARIJUANA.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it resolved by the Senate of the State of Arizona, the House of  
2 Representatives concurring:

3 1. Under the power of the referendum, as vested in the Legislature,  
4 the following measure, relating to medical marijuana, is enacted to become  
5 valid as a law if approved by the voters and on proclamation of the  
6 Governor:

7 AN ACT

8 AMENDING SECTION 36-2803, ARIZONA REVISED STATUTES; AMENDING  
9 TITLE 36, CHAPTER 28.1, ARIZONA REVISED STATUTES, BY ADDING  
10 SECTION 36-2803.02; AMENDING SECTION 36-2806, ARIZONA REVISED  
11 STATUTES; AMENDING TITLE 36, CHAPTER 28.1, ARIZONA REVISED  
12 STATUTES, BY ADDING SECTION 36-2812; AMENDING SECTION 36-2817,  
13 ARIZONA REVISED STATUTES; AMENDING TITLE 36, CHAPTER 28.1,  
14 ARIZONA REVISED STATUTES, BY ADDING SECTION 36-2822; AMENDING  
15 SECTION 42-5010, ARIZONA REVISED STATUTES; AMENDING TITLE 42,  
16 CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING  
17 SECTION 42-5030.02; AMENDING SECTION 42-5061, ARIZONA REVISED  
18 STATUTES, AS AMENDED BY LAWS 2019, CHAPTER 273, SECTION 7 AND  
19 CHAPTER 288, SECTION 1; AMENDING SECTION 42-5061, ARIZONA  
20 REVISED STATUTES, AS AMENDED BY LAWS 2019, CHAPTER 273,  
21 SECTION 8 AND CHAPTER 288, SECTION 2; AMENDING TITLE 42,  
22 CHAPTER 5, ARTICLE 2, ARIZONA REVISED STATUTES, BY ADDING  
23 SECTION 42-5077; RELATING TO MEDICAL MARIJUANA.

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

25 Section 1. Section 36-2803, Arizona Revised Statutes,  
26 is amended to read:

27 36-2803. Rulemaking; notice; testing of marijuana and  
28 marijuana products; fees

29 A. The department shall adopt rules:

30 1. Governing the manner in which the department  
31 considers petitions from the public to add debilitating  
32 medical conditions or treatments to the list of debilitating  
33 medical conditions set forth in section 36-2801, paragraph 3,  
34 including public notice of, and an opportunity to comment in a  
35 public hearing on, petitions.

36 2. Establishing the form and content of registration  
37 and renewal applications submitted under this chapter.

38 3. Governing the manner in which the department  
39 considers applications for and renewals of registry  
40 identification cards.

41 4. Governing nonprofit medical marijuana dispensaries  
42 to protect against diversion and theft without imposing an  
43 undue burden on nonprofit medical marijuana dispensaries or  
44 compromising the confidentiality of cardholders, including:

1 (a) The manner in which the department considers  
2 applications for and renewals of registration certificates.

3 (b) Minimum oversight requirements for nonprofit  
4 medical marijuana dispensaries.

5 (c) Minimum recordkeeping requirements for nonprofit  
6 medical marijuana dispensaries.

7 (d) Minimum security requirements for nonprofit medical  
8 marijuana dispensaries, including requirements to protect each  
9 registered nonprofit medical marijuana dispensary location by  
10 a fully operational security alarm system.

11 (e) Procedures for suspending or revoking the  
12 registration certificate of nonprofit medical marijuana  
13 dispensaries that violate this chapter or the rules adopted  
14 pursuant to this section.

15 5. Establishing application and renewal fees for  
16 registry identification cards, nonprofit medical marijuana  
17 dispensary registration certificates and independent  
18 third-party laboratory certificates, according to the  
19 following:

20 (a) The total amount of all fees shall generate  
21 revenues that are sufficient to implement and administer this  
22 chapter, except that fee revenue may be offset or supplemented  
23 by private donations.

24 (b) Nonprofit medical marijuana dispensary application  
25 fees may not exceed \$5,000.

26 (c) Nonprofit medical marijuana dispensary renewal fees  
27 may not exceed \$1,000.

28 (d) The total amount of revenue generated from  
29 nonprofit medical marijuana dispensary application and renewal  
30 fees, registry identification card fees for nonprofit medical  
31 marijuana dispensary agents and independent third-party  
32 laboratory agents and application and renewal fees for  
33 independent third-party laboratories shall be sufficient to  
34 implement and administer this chapter, including the  
35 verification system, except that the fee revenue may be offset  
36 or supplemented by private donations.

37 (e) The department may establish a sliding scale of  
38 patient application and renewal fees based on a qualifying  
39 patient's household income.

40 (f) The department may consider private donations under  
41 section 36-2817 to reduce application and renewal fees.

42 B. The department of health services shall adopt rules  
43 that require each nonprofit medical marijuana dispensary to  
44 display in a conspicuous location a sign that warns pregnant  
45 women about the potential dangers to fetuses caused by smoking

1 or ingesting marijuana while pregnant or to infants while  
2 breastfeeding and the risk of being reported to the department  
3 of child safety during pregnancy or at the birth of the child  
4 by persons who are required to report. The rules shall  
5 include the specific warning language that must be included on  
6 the sign. The cost and display of the sign required by rule  
7 shall be borne by the nonprofit medical marijuana  
8 dispensary. The rules shall also require each certifying  
9 physician to attest that the physician has provided  
10 information to each qualifying female patient that warns about  
11 the potential dangers to fetuses caused by smoking or  
12 ingesting marijuana while pregnant or to infants while  
13 breastfeeding and the risk of being reported to the department  
14 of child safety during pregnancy or at the birth of the child  
15 by persons who are required to report.

16 C. The department is authorized to adopt the rules set  
17 forth in subsections A and B of this section and shall adopt  
18 those rules pursuant to title 41, chapter 6.

19 D. The department of health services shall post  
20 prominently on its public website a warning about the  
21 potential dangers to fetuses caused by smoking or ingesting  
22 marijuana while pregnant or to infants while breastfeeding and  
23 the risk of being reported to the department of child safety  
24 during pregnancy or at the birth of the child by persons who  
25 are required to report.

26 E. Beginning November 1, 2020, before selling or  
27 dispensing marijuana or marijuana products to registered  
28 qualified patients or registered designated caregivers,  
29 nonprofit medical marijuana dispensaries shall test marijuana  
30 and marijuana products for medical use to determine unsafe  
31 levels of microbial contamination, heavy metals, pesticides,  
32 herbicides, fungicides, growth regulators and residual  
33 solvents and confirm the potency of the marijuana to be  
34 dispensed. ONLY PESTICIDE PRODUCTS THAT ARE EXEMPT FROM  
35 FEDERAL REGULATION UNDER THE MINIMUM RISK EXEMPTION  
36 REGULATIONS IN 40 CODE OF FEDERAL REGULATIONS SECTION  
37 152.25(f) MAY BE USED IN CULTIVATING MARIJUANA FOR MEDICAL  
38 USE.

39 F. Beginning November 1, 2020, nonprofit medical  
40 marijuana dispensaries shall:

41 1. Provide test results to a registered qualifying  
42 patient or designated caregiver immediately on request.

1           2. Display in a conspicuous location a sign that  
2 notifies patients of their right to receive the certified  
3 independent third-party laboratory test results for marijuana  
4 and marijuana products for medical use.

5           G. The department shall adopt rules to certify and  
6 regulate independent third-party laboratories that analyze  
7 marijuana cultivated for medical use. The department shall  
8 establish certification fees for laboratories pursuant to  
9 subsection A of this section. In order to be certified as an  
10 independent third-party laboratory that is allowed to test  
11 marijuana and marijuana products for medical use pursuant to  
12 this chapter, an independent third-party laboratory:

13           1. Must meet requirements established by the  
14 department, including reporting and health and safety  
15 requirements.

16           2. May not have any direct or indirect familial or  
17 financial relationship with or interest in a nonprofit medical  
18 marijuana dispensary or related medical marijuana business  
19 entity or management company, or any direct or indirect  
20 familial or financial relationship with a designated caregiver  
21 for whom the laboratory is testing marijuana and marijuana  
22 products for medical use in this state.

23           3. Must have a quality assurance program and standards.

24           4. Must have an adequate chain of custody and sample  
25 requirement policies.

26           5. Must have an adequate records retention process to  
27 preserve records.

28           6. Must establish procedures to ensure that results are  
29 accurate, precise and scientifically valid before reporting  
30 the results.

31           7. Must be accredited by a national or international  
32 accreditation association or other similar accrediting entity,  
33 as determined by the department.

34           8. Must establish policies and procedures for disposal  
35 and reverse distribution of samples that are collected by the  
36 laboratory.

37           H. The department may conduct proficiency testing and  
38 remediate problems with independent third-party laboratories  
39 that are certified and regulated pursuant to this chapter.  
40 Remediation may include assessing civil penalties and  
41 suspending or revoking a laboratory's certification.

1           Sec. 2. Title 36, chapter 28.1, Arizona Revised  
2 Statutes, is amended by adding section 36-2803.02, to read:

3           36-2803.02. Warning labels; requirements

4           THE DEPARTMENT SHALL DEVELOP WARNING LABELS THAT ARE  
5 BASED ON THE UNITED STATES DEPARTMENT OF HEALTH AND HUMAN  
6 SERVICES OFFICE OF THE SURGEON GENERAL'S WARNINGS ON  
7 MARIJUANA. THE DEPARTMENT SHALL REQUIRE THE LABELS TO BE  
8 AFFIXED TO THE PACKAGING OF ANY MEDICAL MARIJUANA THAT IS  
9 DISPENSED BY A REGISTERED NONPROFIT MEDICAL MARIJUANA  
10 DISPENSARY TO A QUALIFIED PATIENT OR A DESIGNATED CAREGIVER.

11          Sec. 3. Section 36-2806, Arizona Revised Statutes, is  
12 amended to read:

13          36-2806. Registered nonprofit medical marijuana  
14               dispensaries; requirements; rules;  
15               inspections; testing

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

25          B. The operating documents of a registered nonprofit  
26 medical marijuana dispensary shall include procedures ~~for the~~  
27 ~~oversight of~~ TO OVERSEE the registered nonprofit medical  
28 marijuana dispensary and procedures to ensure accurate  
29 recordkeeping.

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

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

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

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

13 G. A nonprofit medical marijuana dispensary shall not  
14 allow any person to consume marijuana on the property of the  
15 nonprofit medical marijuana dispensary.

16 H. Registered nonprofit medical marijuana dispensaries  
17 are subject to reasonable inspection by the department. The  
18 department ~~shall give reasonable notice of an inspection~~ MAY  
19 INSPECT A NONPROFIT MEDICAL MARIJUANA DISPENSARY under this  
20 subsection DURING THE DISPENSARY'S NORMAL BUSINESS HOURS TO  
21 DETERMINE WHETHER THE DISPENSARY IS IN COMPLIANCE WITH THIS  
22 CHAPTER AND THE RULES ADOPTED PURSUANT TO THIS CHAPTER.

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

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

32 K. ON REQUEST, THE DEPARTMENT OF HEALTH SERVICES SHALL  
33 SHARE WITH THE DEPARTMENT OF REVENUE INFORMATION REGARDING A  
34 REGISTERED NONPROFIT MEDICAL MARIJUANA DISPENSARY, INCLUDING  
35 ITS NAME, REGISTRY IDENTIFICATION NUMBER, PHYSICAL ADDRESS,  
36 CULTIVATION SITE AND TRANSACTION PRIVILEGE TAX LICENSE NUMBER,  
37 INFORMATION ABOUT ITS SUPPLIER AND ALL SALES DATA. THE  
38 DEPARTMENT OF HEALTH SERVICES MAY NOT SHARE ANY SPECIFIC  
39 INFORMATION REGARDING REGISTERED QUALIFYING PATIENTS THAT IS  
40 COLLECTED FROM THE REGISTERED NONPROFIT MEDICAL MARIJUANA  
41 DISPENSARY.

42 L. THE DEPARTMENT OF HEALTH SERVICES MAY SUSPEND,  
43 REVOKE OR REFUSE TO RENEW THE REGISTRATION OF A NONPROFIT  
44 MEDICAL MARIJUANA DISPENSARY THAT DOES NOT COMPLY WITH THE TAX

1 REQUIREMENTS OF TITLE 42 AS REPORTED BY THE DEPARTMENT OF  
2 REVENUE.

3 Sec. 4. Title 36, chapter 28.1, Arizona Revised  
4 Statutes, is amended by adding section 36-2812, to read:

5 36-2812. Special services unit

6 THE DEPARTMENT SHALL ESTABLISH A SPECIAL SERVICES UNIT  
7 TO ENSURE COMPLIANCE WITH THIS CHAPTER. THE SPECIAL SERVICES  
8 UNIT SHALL HAVE AT LEAST ONE PEACE OFFICER WHO MAY ASSIST WITH  
9 CRIMINAL INVESTIGATIONS AND COORDINATE WITH LAW ENFORCEMENT  
10 AGENCIES.

11 Sec. 5. Section 36-2817, Arizona Revised Statutes, is  
12 amended to read:

13 36-2817. Medical marijuana fund; private donations

14 A. The medical marijuana fund is established consisting  
15 of fees collected, civil penalties imposed and private  
16 donations received under this chapter. The department shall  
17 administer the fund. Monies in the fund are continuously  
18 appropriated.

19 B. The director of the department may accept and spend  
20 private grants, gifts, donations, contributions and devises to  
21 assist in carrying out ~~the provisions of~~ this chapter.

22 C. MONIES IN THE MEDICAL MARIJUANA FUND MAY BE USED TO  
23 PROVIDE GRANTS RELATING TO MARIJUANA RESEARCH STUDIES PURSUANT  
24 TO SECTION 36-2822.

25 ~~C.~~ D. Monies in the medical marijuana fund do not  
26 revert to the state general fund at the end of a fiscal year.

27 Sec. 6. Title 36, chapter 28.1, Arizona Revised  
28 Statutes, is amended by adding section 36-2822, to read:

29 36-2822. Marijuana research studies: grants:  
30 requirements; exemption

31 A. THE DEPARTMENT SHALL PROVIDE GRANTS FROM MONIES IN  
32 THE MEDICAL MARIJUANA FUND ESTABLISHED BY SECTION 36-2817 FOR  
33 MARIJUANA RESEARCH STUDIES ON THE SAFETY AND EFFICACY OF USING  
34 MARIJUANA FOR MEDICAL PURPOSES AND THE SIDE EFFECTS OF  
35 MARIJUANA USE, SPECIFICALLY FOCUSING ON THE FOLLOWING:

36 1. THE RELATIONSHIP BETWEEN MARIJUANA USE AND  
37 SCHIZOPHRENIA.

38 2. THE CORRELATION BETWEEN MARIJUANA USE AND VIOLENT  
39 BEHAVIOR, CONSIDERING FACTORS SUCH AS MENTAL ILLNESS AND THE  
40 TETRAHYDROCANNABINOL CONCENTRATION IN MARIJUANA.

41 B. GRANTS PROVIDED PURSUANT TO THIS SECTION ARE EXEMPT  
42 FROM THE REQUIREMENTS OF TITLE 41, CHAPTER 24.

43 C. THE DEPARTMENT SHALL POST ON ITS PUBLIC WEBSITE ALL  
44 RESEARCH CONDUCTED PURSUANT TO THE GRANTS PROVIDED UNDER THIS  
45 SECTION.



1 D. NOTWITHSTANDING TITLE 13, CHAPTER 34, A PERSON WHO  
2 RECEIVES A GRANT FOR A MARIJUANA RESEARCH STUDY PURSUANT TO  
3 THIS SECTION AND ANY OF THE PERSON'S EMPLOYEES WORKING ON THE  
4 RESEARCH STUDY MAY NOT BE CHARGED WITH OR PROSECUTED FOR  
5 POSSESSION OF MARIJUANA THAT IS CULTIVATED FOR MEDICAL USE  
6 WHEN THE PERSON IS WORKING ON THE RESEARCH STUDY.

7 Sec. 7. Section 42-5010, Arizona Revised Statutes, is  
8 amended to read:

9 42-5010. Rates; distribution base

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

12 1. Five percent of the tax base as computed for the  
13 business of every person engaging or continuing in this state  
14 in the following business classifications described in article  
15 2 of this chapter:

- 16 (a) Transporting classification.
- 17 (b) Utilities classification.
- 18 (c) Telecommunications classification.
- 19 (d) Pipeline classification.
- 20 (e) Private car line classification.
- 21 (f) Publication classification.
- 22 (g) Job printing classification.
- 23 (h) Prime contracting classification.
- 24 (i) Amusement classification.
- 25 (j) Restaurant classification.
- 26 (k) Personal property rental classification.
- 27 (l) Retail classification and amounts equal to retail  
28 transaction privilege tax due pursuant to section 42-5008.01.

29 (m) MEDICAL MARIJUANA CLASSIFICATION.

30 2. Five and one-half percent of the tax base as  
31 computed for the business of every person engaging or  
32 continuing in this state in:

33 (a) The transient lodging classification described in  
34 section 42-5070.

35 (b) The online lodging marketplace classification  
36 described in section 42-5076 who has entered into an agreement  
37 with the department to register for, or has otherwise obtained  
38 from the department, a license to collect tax pursuant to  
39 section 42-5005, subsection L.

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

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

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

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

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

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

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

33           G. In addition to the rates prescribed by subsection A  
34 of this section, if approved by the qualified electors voting  
35 at a statewide general election, an additional rate increment  
36 is imposed and shall be collected through June 30, 2021. The  
37 taxpayer shall pay taxes pursuant to this subsection at the  
38 same time and in the same manner as under subsection A of this  
39 section. The department shall separately account for the  
40 revenues collected with respect to the rates imposed pursuant  
41 to this subsection and the state treasurer shall distribute  
42 all of those revenues in the manner prescribed by section  
43 42-5029, subsection E. The rates imposed pursuant to this  
44 subsection shall not be considered local revenues for purposes  
45 of article IX, section 21, Constitution of Arizona. The

1 additional tax rate increment is levied at the rate of  
2 six-tenths of one per cent of the tax base of every person  
3 engaging or continuing in this state in a business  
4 classification listed in subsection A, paragraph 1 of this  
5 section.

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

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

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

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

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

35 J. Zero percent of the tax revenues that are collected  
36 at the rate prescribed by subsection A, paragraph 1 of this  
37 section from persons on account of engaging in business under  
38 the business classification listed in subsection A, paragraph  
39 1, subdivision (h) of this section, and that are subject to  
40 any distribution required by section 42-5032.02, is designated  
41 as distribution base for the purposes of section 42-5029 until  
42 the total amount subject to distribution pursuant to section  
43 42-5032.02 has reached the maximum amount prescribed by  
44 section 42-5032.02, subsection C. Thereafter, twenty percent  
45 of the remaining tax revenues is designated as distribution

1 base for the purposes of section 42-5029 as provided by  
2 subsection B of this section.

3 Sec. 8. Title 42, chapter 5, article 1, Arizona Revised  
4 Statutes, is amended by adding section 42-5030.02, to read:

5 42-5030.02. Distribution of revenues for seriously  
6 mentally ill services

7 EACH MONTH THE STATE TREASURER SHALL CREDIT, FROM THE  
8 AMOUNT DESIGNATED AS DISTRIBUTION BASE PURSUANT TO SECTION  
9 42-5029, SUBSECTION D, THE TOTAL AMOUNT OF STATE TRANSACTION  
10 PRIVILEGE TAX REVENUES RECEIVED FROM PERSONS CONDUCTING  
11 BUSINESS UNDER THE MEDICAL MARIJUANA CLASSIFICATION PURSUANT  
12 TO SECTION 42-5077 TO THE STATE GENERAL FUND. THE LEGISLATURE  
13 SHALL ANNUALLY APPROPRIATE THE MONIES CREDITED PURSUANT TO  
14 THIS SECTION TO THE ARIZONA HEALTH CARE COST CONTAINMENT  
15 SYSTEM FOR NONMEDICAID SERIOUSLY MENTALLY ILL SERVICES.

16 Sec. 9. Section 42-5061, Arizona Revised Statutes, as  
17 amended by Laws 2019, chapter 273, section 7 and chapter 288,  
18 section 1, is amended to read:

19 42-5061. Retail classification; definitions

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

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

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

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

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

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

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

1           7. The sale of stocks and bonds.

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

7           9. Prosthetic appliances as defined in section 23-501  
8 and as prescribed or recommended by a health professional who  
9 is licensed pursuant to title 32, chapter 7, 8, 11, 13, 14,  
10 15, 16, 17 or 29.

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

12          11. Prescription eyeglasses or contact lenses.

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

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

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

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

28          16. Items purchased with United States department of  
29 agriculture coupons issued under the supplemental nutrition  
30 assistance program pursuant to the food and nutrition act of  
31 2008 (P.L. 88-525; 78 Stat. 703; 7 United States Code sections  
32 2011 through 2036b) by the United States department of  
33 agriculture food and nutrition service or food instruments  
34 issued under section 17 of the child nutrition act  
35 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302;  
36 P.L. 111-296; 42 United States Code section 1786).

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

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

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

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

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

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

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

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

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

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

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

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

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

16           25. Tangible personal property sold to:

17           (a) A qualifying hospital as defined in section  
18 42-5001.

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

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

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

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

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

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

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

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

10 27. Tangible personal property sold to:

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

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

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

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

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

30 28. The sale of a motor vehicle to:

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

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

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



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

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

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

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

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

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

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

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

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

12           37. Coal, petroleum, coke, natural gas, virgin fuel oil  
13 and electricity sold to a qualified environmental technology  
14 manufacturer, producer or processor as defined in section  
15 41-1514.02 and directly used or consumed in ~~the generation~~  
16 ~~GENERATING~~ or ~~provision of~~ PROVIDING on-site power or energy  
17 solely for environmental technology manufacturing, producing  
18 or processing or environmental protection. This paragraph  
19 ~~shall apply~~ APPLIES for twenty full consecutive calendar or  
20 fiscal years from the date the first paper manufacturing  
21 machine is placed in service. In the case of an environmental  
22 technology manufacturer, producer or processor ~~who~~ THAT does  
23 not manufacture paper, the time period ~~shall begin~~ BEGINS with  
24 the date the first manufacturing, processing or production  
25 equipment is placed in service.

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

42           39. Through December 31, 1994, personal property  
43 liquidation transactions, conducted by a personal property  
44 liquidator. From and after December 31, 1994, personal  
45 property liquidation transactions shall be taxable under this

1 section provided that nothing in this subsection shall be  
2 construed to authorize the taxation of casual activities or  
3 transactions under this chapter. For the purposes of this  
4 paragraph:

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

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

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

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

26 42. Sales of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

29 60. Sales of works of fine art, as defined in section  
30 44-1771, at an art auction or gallery in this state to  
31 nonresidents of this state for use outside this state if the  
32 vendor ships or delivers the work of fine art to a destination  
33 outside this state.

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

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

44 1. Machinery, or equipment, used directly in  
45 manufacturing, processing, fabricating, job printing, refining

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

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

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

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

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

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

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

39 (a) A person:

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

1           (ii) That is certificated or licensed under federal  
2 aviation administration regulations (14 Code of Federal  
3 Regulations part 121 or 135) as a scheduled or unscheduled  
4 carrier of persons for hire for use as or in conjunction with  
5 or becoming part of an aircraft to be used to transport  
6 persons for hire in intrastate, interstate or foreign  
7 commerce.

8           (iii) Holding a foreign air carrier permit for air  
9 transportation for use as or in conjunction with or becoming a  
10 part of aircraft to be used to transport persons, property or  
11 United States mail in intrastate, interstate or foreign  
12 commerce.

13           (iv) Operating an aircraft to transport persons in any  
14 manner for compensation or hire, or for use in a fractional  
15 ownership program that meets the requirements of federal  
16 aviation administration regulations (14 Code of Federal  
17 Regulations part 91, subpart K), including as an air carrier,  
18 a foreign air carrier or a commercial operator or under a  
19 restricted category, within the meaning of 14 Code of Federal  
20 Regulations, regardless of whether the operation or aircraft  
21 is regulated or certified under part 91, 119, 121, 133, 135,  
22 136 or 137, or another part of 14 Code of Federal Regulations.

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

29           (b) Any foreign government.

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

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

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



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

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

13           12. Groundwater measuring devices required under  
14 section 45-604.

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

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

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

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

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

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

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

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

16           (ii) Over two-thirds of the transmissions, measured in  
17 megabytes, transmitted by or on behalf of those direct  
18 broadcast television or data transmission services during the  
19 test period were transmitted by the facility to or on behalf  
20 of those services. For the purposes of subdivision (b) of  
21 this paragraph, "test period" means the three hundred  
22 sixty-five day period beginning on the later of the date on  
23 which the tangible personal property is purchased or the date  
24 on which the direct broadcast satellite television or data  
25 transmission service first transmits information to its  
26 customers.

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

38           (a) Includes the integrated systems, fixtures, piping,  
39 movable partitions, lighting and all property that is  
40 necessary or adapted to reduce contamination or to control  
41 airflow, temperature, humidity, chemical purity or other  
42 environmental conditions or manufacturing tolerances, as well  
43 as the production machinery and equipment operating in  
44 conjunction with the clean room environment.

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

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

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

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

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

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

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

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

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

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

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

18 2. Janitorial equipment and hand tools.

19 3. Office equipment, furniture and supplies.

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

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

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

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

33 8. Machinery and equipment or other tangible personal  
34 property used by a contractor in ~~the performance of~~ PERFORMING  
35 a contract.

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

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

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

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

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

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

34           2. Businesses classified under the:

- 35           (a) Transporting classification.
- 36           (b) Utilities classification.
- 37           (c) Telecommunications classification.
- 38           (d) Pipeline classification.
- 39           (e) Private car line classification.
- 40           (f) Publication classification.
- 41           (g) Job printing classification.
- 42           (h) Prime contracting classification.
- 43           (i) Restaurant classification.
- 44           (j) MEDICAL MARIJUANA CLASSIFICATION.

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

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

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

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

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

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

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

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

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

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

44           M. There shall be deducted from the tax base the amount  
45 received from sales of solar energy devices. The retailer

1 shall register with the department as a solar energy retailer.  
2 By registering, the retailer acknowledges that it will make  
3 its books and records relating to sales of solar energy  
4 devices available to the department for examination.

5 N. In computing the tax base in the case of the sale or  
6 transfer of wireless telecommunications equipment as an  
7 inducement to a customer to enter into or continue a contract  
8 for telecommunications services that are taxable under section  
9 42-5064, gross proceeds of sales or gross income does not  
10 include any sales commissions or other compensation received  
11 by the retailer as a result of the customer entering into or  
12 continuing a contract for the telecommunications services.

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

19 P. Retail sales of prepaid calling cards or prepaid  
20 authorization numbers for telecommunications services,  
21 including sales of reauthorization of a prepaid card or  
22 authorization number, are subject to tax under this section.

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

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

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

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

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

39 2. The title or possession of the coal is transferred  
40 back to the owner or operator of the power plant after  
41 completion of the coal refining process. For the purposes of  
42 this paragraph, "coal refining process" means the application  
43 of a coal additive system that aids in the reduction of power  
44 plant emissions during the combustion of coal and the  
45 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 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.

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 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.



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 ~~manufacture of~~ 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~~ PERFORMING 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.

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

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

15           Sec. 10. Section 42-5061, Arizona Revised Statutes, as  
16 amended by Laws 2019, chapter 273, section 8 and chapter 288,  
17 section 2, is amended to read:

18           42-5061. Retail classification: definitions

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

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

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

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

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

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

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

45           7. The sale of stocks and bonds.

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

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

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

11          11. Prescription eyeglasses or contact lenses.

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

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

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

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

27          16. Items purchased with United States department of  
28 agriculture coupons issued under the supplemental nutrition  
29 assistance program pursuant to the food and nutrition act of  
30 2008 (P.L. 88-525; 78 Stat. 703; 7 United States Code sections  
31 2011 through 2036b) by the United States department of  
32 agriculture food and nutrition service or food instruments  
33 issued under section 17 of the child nutrition act  
34 (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302;  
35 P.L. 111-296; 42 United States Code section 1786).

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

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

43          19. Articles of food, drink or condiment and accessory  
44 tangible personal property to a school district or charter  
45 school if such articles and accessory tangible personal

1 property are to be prepared and served to persons for  
2 consumption on the premises of a public school within the  
3 district or on the premises of the charter school during  
4 school hours.

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

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

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

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

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

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

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

43 22. Motor vehicle fuel and use fuel that are subject to  
44 a tax imposed under title 28, chapter 16, article 1, sales of  
45 use fuel to a holder of a valid single trip use fuel tax

1 permit issued under section 28-5739, sales of aviation fuel  
2 that are subject to the tax imposed under section 28-8344 and  
3 sales of jet fuel that are subject to the tax imposed under  
4 article 8 of this chapter.

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

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

13 25. Tangible personal property sold to:

14 (a) A qualifying hospital as defined in section  
15 42-5001.

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

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

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

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

32 (f) For taxable periods beginning from and after June  
33 30, 2001, a nonprofit charitable organization that has  
34 qualified under section 501(c)(3) of the internal revenue code  
35 and that provides residential apartment housing for ~~low-income~~  
36 **LOW-INCOME** persons over sixty-two years of age in a facility  
37 that qualifies for a federal housing subsidy, if the tangible  
38 personal property is used by the organization solely to  
39 provide residential apartment housing for ~~low-income~~  
40 **LOW-INCOME** persons over sixty-two years of age in a facility  
41 that qualifies for a federal housing subsidy.

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

1           (h) Any person representing or working on behalf of  
2 another person described in subdivisions (a) through (g) of  
3 this paragraph if the tangible personal property is  
4 incorporated or fabricated into a project described in section  
5 42-5075, subsection 0.

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

8           27. Tangible personal property sold to:

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

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

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

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

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

28           28. The sale of a motor vehicle to:

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

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

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

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

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

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

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

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

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

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

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

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

12           37. Petroleum, coke, natural gas, virgin fuel oil and  
13 electricity sold to a qualified environmental technology  
14 manufacturer, producer or processor as defined in section  
15 41-1514.02 and directly used or consumed in ~~the generation~~  
16 ~~GENERATING~~ or ~~provision of~~ PROVIDING on-site power or energy  
17 solely for environmental technology manufacturing, producing  
18 or processing or environmental protection. This paragraph  
19 ~~shall apply~~ APPLIES for twenty full consecutive calendar or  
20 fiscal years from the date the first paper manufacturing  
21 machine is placed in service. In the case of an environmental  
22 technology manufacturer, producer or processor ~~who~~ THAT does  
23 not manufacture paper, the time period ~~shall begin~~ BEGINS with  
24 the date the first manufacturing, processing or production  
25 equipment is placed in service.

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

42           39. Through December 31, 1994, personal property  
43 liquidation transactions, conducted by a personal property  
44 liquidator. From and after December 31, 1994, personal  
45 property liquidation transactions shall be taxable under this



1 section provided that nothing in this subsection shall be  
2 construed to authorize the taxation of casual activities or  
3 transactions under this chapter. For the purposes of this  
4 paragraph:

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

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

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

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

26 42. Sales of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

29 60. Sales of works of fine art, as defined in section  
30 44-1771, at an art auction or gallery in this state to  
31 nonresidents of this state for use outside this state if the  
32 vendor ships or delivers the work of fine art to a destination  
33 outside this state.

34 61. Sales of coal.

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

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

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

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

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

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

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

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

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

41           (a) A person:

42           (i) Holding, or exempted by federal law from obtaining,  
43 a federal certificate of public convenience and necessity for  
44 use as, in conjunction with or becoming part of an aircraft to

1 be used to transport persons for hire in intrastate,  
2 interstate or foreign commerce.

3 (ii) That is certificated or licensed under federal  
4 aviation administration regulations (14 Code of Federal  
5 Regulations part 121 or 135) as a scheduled or unscheduled  
6 carrier of persons for hire for use as or in conjunction with  
7 or becoming part of an aircraft to be used to transport  
8 persons for hire in intrastate, interstate or foreign  
9 commerce.

10 (iii) Holding a foreign air carrier permit for air  
11 transportation for use as or in conjunction with or becoming a  
12 part of aircraft to be used to transport persons, property or  
13 United States mail in intrastate, interstate or foreign  
14 commerce.

15 (iv) Operating an aircraft to transport persons in any  
16 manner for compensation or hire, or for use in a fractional  
17 ownership program that meets the requirements of federal  
18 aviation administration regulations (14 Code of Federal  
19 Regulations part 91, subpart K), including as an air carrier,  
20 a foreign air carrier or a commercial operator or under a  
21 restricted category, within the meaning of 14 Code of Federal  
22 Regulations, regardless of whether the operation or aircraft  
23 is regulated or certified under part 91, 119, 121, 133, 135,  
24 136 or 137, or another part of 14 Code of Federal Regulations.

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

31 (b) Any foreign government.

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

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

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

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

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

16           12. Groundwater measuring devices required under  
17 section 45-604.

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

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

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

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

1 the definition of research and development, or other  
2 nontechnological activities or technical services.

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

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

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

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

18 (ii) Over two-thirds of the transmissions, measured in  
19 megabytes, transmitted by or on behalf of those direct  
20 broadcast television or data transmission services during the  
21 test period were transmitted by the facility to or on behalf  
22 of those services. For the purposes of subdivision (b) of  
23 this paragraph, "test period" means the three hundred  
24 sixty-five day period beginning on the later of the date on  
25 which the tangible personal property is purchased or the date  
26 on which the direct broadcast satellite television or data  
27 transmission service first transmits information to its  
28 customers.

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

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



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

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

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

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

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

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

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

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

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

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

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

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

18 2. Janitorial equipment and hand tools.

19 3. Office equipment, furniture and supplies.

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

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

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

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

33 8. Machinery and equipment or other tangible personal  
34 property used by a contractor in ~~the performance of~~ PERFORMING  
35 a contract.

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

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

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

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

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

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

34           2. Businesses classified under the:

- 35           (a) Transporting classification.
- 36           (b) Utilities classification.
- 37           (c) Telecommunications classification.
- 38           (d) Pipeline classification.
- 39           (e) Private car line classification.
- 40           (f) Publication classification.
- 41           (g) Job printing classification.
- 42           (h) Prime contracting classification.
- 43           (i) Restaurant classification.
- 44           (j) MEDICAL MARIJUANA CLASSIFICATION.

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

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

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

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

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

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

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

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

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

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

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

7 N. In computing the tax base in the case of the sale or  
8 transfer of wireless telecommunications equipment as an  
9 inducement to a customer to enter into or continue a contract  
10 for telecommunications services that are taxable under section  
11 42-5064, gross proceeds of sales or gross income does not  
12 include any sales commissions or other compensation received  
13 by the retailer as a result of the customer entering into or  
14 continuing a contract for the telecommunications services.

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

21 P. Retail sales of prepaid calling cards or prepaid  
22 authorization numbers for telecommunications services,  
23 including sales of reauthorization of a prepaid card or  
24 authorization number, are subject to tax under this section.

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

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

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

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

1 (b) of this section. Payment of the amount under this  
2 subsection exempts the purchaser from liability for any tax  
3 imposed under article 4 of this chapter and related to the  
4 tangible personal property purchased. The amount shall be  
5 treated as transaction privilege tax to the purchaser and as  
6 tax revenues collected from the seller to designate the  
7 distribution base pursuant to section 42-5029.

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

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

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

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

33 U. For the purposes of this section:

34 1. "Agricultural aircraft" means an aircraft that is  
35 built for agricultural use for the aerial application of  
36 pesticides or fertilizer or for aerial seeding.

37 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

35           6. "Subcontract" means an agreement between a  
36 contractor and any person who is not an employee of the  
37 contractor for furnishing of supplies or services that, in  
38 whole or in part, are necessary to the performance of one or  
39 more government contracts, or under which any portion of the  
40 contractor's obligation under one or more government contracts  
41 is performed, undertaken or assumed and that includes  
42 provisions causing title to overhead materials or other  
43 tangible personal property used in ~~the performance of~~  
44 PERFORMING the subcontract to pass to the government or that

1 includes provisions incorporating such title passing clauses  
2 in a government contract into the subcontract.

3 Sec. 11. Title 42, chapter 5, article 2, Arizona  
4 Revised Statutes, is amended by adding section 42-5077, to  
5 read:

6 42-5077. Medical marijuana classification; definition

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

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

12 C. FOR THE PURPOSES OF THIS SECTION, "NONPROFIT MEDICAL  
13 MARIJUANA DISPENSARY" HAS THE SAME MEANING PRESCRIBED IN  
14 SECTION 36-2801.

15 Sec. 12. Conditional enactment

16 Section 42-5061, Arizona Revised Statutes, as amended by  
17 Laws 2019, chapter 273, section 8 and chapter 288, section 2  
18 and this act, does not become effective unless the condition  
19 prescribed by Laws 2018, chapter 263, section 5, subsection A  
20 occurs.

21 Sec. 13. Short title

22 This act may be cited as the "Medical Marijuana Reform  
23 Act".

24 2. The Secretary of State shall submit this proposition to the  
25 voters at the next general election as provided by article IV, part 1,  
26 section 1, Constitution of Arizona.