

REFERENCE TITLE: online home sharing; repeal

State of Arizona  
House of Representatives  
Fifty-fourth Legislature  
Second Regular Session  
2020

# HB 2001

Introduced by  
Representatives Blanc: Campbell, Lieberman, Powers Hannley

## AN ACT

REPEALING SECTIONS 9-500.39, 11-269.17, 15-1650.01 AND 42-1125.02, ARIZONA REVISED STATUTES; AMENDING SECTIONS 42-2003, 42-5005, 42-5009, 42-5010 AND 42-5014, ARIZONA REVISED STATUTES; REPEALING SECTION 42-5042, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5061, AS AMENDED BY LAWS 2019, CHAPTER 273, SECTION 7 AND CHAPTER 288, SECTION 1; AMENDING SECTION 42-5061, AS AMENDED BY LAWS 2019, CHAPTER 273, SECTION 8 AND CHAPTER 288, SECTION 2; AMENDING SECTION 42-5070, ARIZONA REVISED STATUTES; REPEALING SECTION 42-5076, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES; REPEALING SECTIONS 42-6009 AND 42-6013, ARIZONA REVISED STATUTES; AMENDING SECTIONS 42-6102, 42-6108, 42-6108.01, 42-12003 AND 42-12004, ARIZONA REVISED STATUTES; REPEALING LAWS 2016, CHAPTER 208, SECTIONS 14, 15 AND 16; RELATING TO ONLINE LODGING.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Repeal

3 Sections 9-500.39, 11-269.17 and 15-1650.01 and 42-1125.02, Arizona  
4 Revised Statutes, are repealed.

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

7 42-2003. Authorized disclosure of confidential information

8 A. Confidential information relating to:

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

13 2. A corporate taxpayer may be disclosed to any principal officer,  
14 any person designated by a principal officer or any person designated in a  
15 resolution by the corporate board of directors or other similar governing  
16 body. If a corporate officer signs a statement under penalty of perjury  
17 representing that the officer is a principal officer, the department may  
18 rely on the statement until the statement is shown to be false. For the  
19 purposes of this paragraph, "principal officer" includes a chief executive  
20 officer, president, secretary, treasurer, vice president of tax, chief  
21 financial officer, chief operating officer or chief tax officer or any  
22 other corporate officer who has the authority to bind the taxpayer on  
23 matters related to state taxes.

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

27 4. A limited liability company may be disclosed to any member of  
28 the company or, if the company is manager-managed, to any manager.

29 5. An estate may be disclosed to the personal representative of the  
30 estate and to any heir, next of kin or beneficiary under the will of the  
31 decedent if the department finds that the heir, next of kin or beneficiary  
32 has a material interest that will be affected by the confidential  
33 information.

34 6. A trust may be disclosed to the trustee or trustees, jointly or  
35 separately, and to the grantor or any beneficiary of the trust if the  
36 department finds that the grantor or beneficiary has a material interest  
37 that will be affected by the confidential information.

38 7. A government entity may be disclosed to the head of the entity  
39 or a member of the governing board of the entity, or any employee of the  
40 entity who has been delegated the authorization in writing by the head of  
41 the entity or the governing board of the entity.

42 8. Any taxpayer may be disclosed if the taxpayer has waived any  
43 rights to confidentiality either in writing or on the record in any  
44 administrative or judicial proceeding.

1           9. The name and taxpayer identification numbers of persons issued  
2 direct payment permits may be publicly disclosed.

3           10. Any taxpayer may be disclosed during a meeting or telephone  
4 call if the taxpayer is present during the meeting or telephone call and  
5 authorizes the disclosure of confidential information.

6           B. Confidential information may be disclosed to:

7           1. Any employee of the department whose official duties involve tax  
8 administration.

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

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

20           4. Other state tax officials whose official duties require the  
21 disclosure for proper tax administration purposes if the information is  
22 sought in connection with an investigation or any other proceeding  
23 conducted by the official. Any disclosure is limited to information of a  
24 taxpayer who is being investigated or who is a party to a proceeding  
25 conducted by the official.

26           5. The following agencies, officials and organizations, if they  
27 grant substantially similar privileges to the department for the type of  
28 information being sought, pursuant to statute and a written agreement  
29 between the department and the foreign country, agency, state, Indian  
30 tribe or organization:

31           (a) The United States internal revenue service, alcohol and tobacco  
32 tax and trade bureau of the United States treasury, United States bureau  
33 of alcohol, tobacco, firearms and explosives of the United States  
34 department of justice, United States drug enforcement agency and federal  
35 bureau of investigation.

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

37           (c) An organization of states, federation of tax administrators or  
38 multistate tax commission that operates an information exchange for tax  
39 administration purposes.

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

1 (e) An agency, official or organization of an Indian tribal  
2 government with responsibilities comparable to the responsibilities of the  
3 agencies, officials or organizations identified in subdivision (a), (b) or  
4 (c) of this paragraph.

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

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

9 (a) The processing, storage, transmission, destruction and  
10 reproduction of the information.

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

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

14 8. The office of administrative hearings relating to taxes  
15 administered by the department pursuant to section 42-1101, but the  
16 department shall not disclose any confidential information without the  
17 taxpayer's written consent:

18 (a) Regarding income tax or withholding tax.

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

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

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

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

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

31 (a) Qualifying renewable energy operations for the tax incentives  
32 under section 42-12006.

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

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

38 (d) Certifying computer data centers for tax relief under section  
39 41-1519.

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

41 14. The office of the state fire marshal for use in determining  
42 compliance with and enforcing title 37, chapter 9, article 5.

43 15. The department of transportation for its use in administering  
44 taxes, surcharges and penalties prescribed by title 28.

1           16. The Arizona health care cost containment system administration  
2 for its use in administering nursing facility provider assessments.

3           17. The department of administration risk management division and  
4 the office of the attorney general if the information relates to a claim  
5 against this state pursuant to section 12-821.01 involving the department  
6 of revenue.

7           18. Another state agency if the taxpayer authorizes the disclosure  
8 of confidential information in writing, including an authorization that is  
9 part of an application form or other document submitted to the agency.

10          19. The department of economic security for its use in determining  
11 whether an employer has paid all amounts due under the unemployment  
12 insurance program pursuant to title 23, chapter 4.

13          20. The department of health services for its use in determining ~~if~~  
14 ~~WHETHER~~ a medical marijuana dispensary is in compliance with the tax  
15 requirements of ~~title 42,~~ chapter 5 ~~OF THIS TITLE~~ for purposes of section  
16 36-2806, subsection A.

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

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

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

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

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

28           (d) Return information directly relates to a transactional  
29 relationship between a person who is a party to the proceeding and the  
30 taxpayer and directly affects the resolution of an issue in the  
31 proceeding.

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

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

38          E. The department, on the request of any person, shall provide the  
39 names and addresses of bingo licensees as defined in section 5-401, verify  
40 whether or not a person has a privilege license and number, a tobacco  
41 product distributor's license and number or a withholding license and  
42 number or disclose the information to be posted on the department's  
43 website or otherwise publicly accessible pursuant to section 42-1124,  
44 subsection F and section 42-3401.

1 F. A department employee, in connection with the official duties  
2 relating to any audit, collection activity or civil or criminal  
3 investigation, may disclose return information to the extent that  
4 disclosure is necessary to obtain information that is not otherwise  
5 reasonably available. These official duties include the correct  
6 determination of and liability for tax, the amount to be collected or the  
7 enforcement of other state tax revenue laws.

8 G. Confidential information relating to transaction privilege tax,  
9 use tax, severance tax, jet fuel excise and use tax and any other tax  
10 collected by the department on behalf of any jurisdiction may be disclosed  
11 to any county, city or town tax official if the information relates to a  
12 taxpayer who is or may be taxable by a county, city or town or who may be  
13 subject to audit by the department pursuant to section 42-6002. Any  
14 taxpayer information that is released by the department to the county,  
15 city or town:

16 1. May be used only for internal purposes, including audits. ~~If~~  
17 ~~there is a legitimate business need relating to enforcing laws,~~  
18 ~~regulations and ordinances pursuant to section 9-500.39 or 11-269.17, a~~  
19 ~~county, city or town tax official may redisclose transaction privilege tax~~  
20 ~~information relating to a vacation rental or short-term rental property~~  
21 ~~owner or online lodging operator from the new license report and license~~  
22 ~~update report, subject to the following:~~

23 (a) ~~The information redisclosed is limited to the following:~~  
24 (i) ~~The transaction privilege tax license number.~~  
25 (ii) ~~The type of organization or ownership of the business.~~  
26 (iii) ~~The legal business name and doing business as name, if~~  
27 ~~different from the legal name.~~

28 (iv) ~~The business mailing address, tax record physical location~~  
29 ~~address, telephone number, email address and fax number.~~

30 (v) ~~The date the business started in this state, the business~~  
31 ~~description and the North American industry classification system code.~~

32 (vi) ~~The name, address and telephone number for each owner,~~  
33 ~~partner, corporate officer, member, managing member or official of the~~  
34 ~~employing unit.~~

35 (b) ~~Redisclosure is limited to nonelected officials in other units~~  
36 ~~within the county, city or town. The information may not be redisclosed~~  
37 ~~to an elected official or the elected official's staff.~~

38 (c) ~~All redisclosures of confidential information made pursuant to~~  
39 ~~this paragraph are subject to paragraph 2 of this subsection.~~

40 2. May not be disclosed to the public in any manner that does not  
41 comply with confidentiality standards established by the department. The  
42 county, city or town shall agree in writing with the department that any  
43 release of confidential information that violates the confidentiality  
44 standards adopted by the department will result in the immediate

1 suspension of any rights of the county, city or town to receive taxpayer  
2 information under this subsection.

3 H. The department may disclose statistical information gathered  
4 from confidential information if it does not disclose confidential  
5 information attributable to any one taxpayer. The department may disclose  
6 statistical information gathered from confidential information, even if it  
7 discloses confidential information attributable to a taxpayer, to:

8 1. The state treasurer in order to comply with the requirements of  
9 section 42-5029, subsection A, paragraph 3.

10 2. The joint legislative income tax credit review committee, the  
11 joint legislative budget committee staff and the legislative staff in  
12 order to comply with the requirements of section 43-221.

13 I. The department may disclose the aggregate amounts of any tax  
14 credit, tax deduction or tax exemption enacted after January 1, 1994.  
15 Information subject to disclosure under this subsection shall not be  
16 disclosed if a taxpayer demonstrates to the department that such  
17 information would give an unfair advantage to competitors.

18 J. Except as provided in section 42-2002, subsection C,  
19 confidential information, described in section 42-2001, paragraph 1,  
20 subdivision (a), item (ii), may be disclosed to law enforcement agencies  
21 for law enforcement purposes.

22 K. The department may provide transaction privilege tax license  
23 information to property tax officials in a county for the purpose of  
24 identification and verification of the tax status of commercial property.

25 L. The department may provide transaction privilege tax, luxury  
26 tax, use tax, property tax and severance tax information to the  
27 ombudsman-citizens aide pursuant to title 41, chapter 8, article 5.

28 M. Except as provided in section 42-2002, subsection D, a court may  
29 order the department to disclose confidential information pertaining to a  
30 party to an action. An order shall be made only on a showing of good  
31 cause and that the party seeking the information has made demand on the  
32 taxpayer for the information.

33 N. This section does not prohibit the disclosure by the department  
34 of any information or documents submitted to the department by a bingo  
35 licensee. Before disclosing the information, the department shall obtain  
36 the name and address of the person requesting the information.

37 O. If the department is required or permitted to disclose  
38 confidential information, it may charge the person or agency requesting  
39 the information for the reasonable cost of its services.

40 P. Except as provided in section 42-2002, subsection D, the  
41 department of revenue shall release confidential information as requested  
42 by the department of economic security pursuant to section 42-1122 or  
43 46-291. Information disclosed under this subsection is limited to the  
44 same type of information that the United States internal revenue service

1 is authorized to disclose under section 6103(1)(6) of the internal revenue  
2 code.

3 Q. Except as provided in section 42-2002, subsection D, the  
4 department shall release confidential information as requested by the  
5 courts and clerks of the court pursuant to section 42-1122.

6 R. To comply with the requirements of section 42-5031, the  
7 department may disclose to the state treasurer, to the county stadium  
8 district board of directors and to any city or town tax official that is  
9 part of the county stadium district confidential information attributable  
10 to a taxpayer's business activity conducted in the county stadium  
11 district.

12 S. The department shall release to the attorney general  
13 confidential information as requested by the attorney general for purposes  
14 of determining compliance with or enforcing any of the following:

15 1. Any public health control law relating to tobacco sales as  
16 provided under title 36, chapter 6, article 14.

17 2. Any law relating to reduced cigarette ignition propensity  
18 standards as provided under title 37, chapter 9, article 5.

19 3. Sections 44-7101 and 44-7111, the master settlement agreement  
20 referred to in those sections and all agreements regarding disputes under  
21 the master settlement agreement.

22 T. For proceedings before the department, the office of  
23 administrative hearings, the state board of tax appeals or any state or  
24 federal court involving penalties that were assessed against a return  
25 preparer, an electronic return preparer or a payroll service company  
26 pursuant to section 42-1103.02, 42-1125.01 or 43-419, confidential  
27 information may be disclosed only before the judge or administrative law  
28 judge adjudicating the proceeding, the parties to the proceeding and the  
29 parties' representatives in the proceeding prior to its introduction into  
30 evidence in the proceeding. The confidential information may be  
31 introduced as evidence in the proceeding only if the taxpayer's name, the  
32 names of any dependents listed on the return, all social security numbers,  
33 the taxpayer's address, the taxpayer's signature and any attachments  
34 containing any of the foregoing information are redacted and if either:

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

37 2. Such a return or the return information relates or may relate to  
38 a transactional relationship between a person who is a party to the  
39 proceeding and the taxpayer that directly affects the resolution of an  
40 issue in the proceeding.

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

44 U. The department and attorney general may share the information  
45 specified in subsection S of this section with any of the following:

1           1. Federal, state or local agencies located in this state for the  
2 purposes of enforcement of the statutes or agreements specified in  
3 subsection S of this section or for the purposes of enforcement of  
4 corresponding laws of other states.

5           2. Indian tribes located in this state for the purposes of  
6 enforcement of the statutes or agreements specified in subsection S of  
7 this section.

8           3. A court, arbitrator, data clearinghouse or similar entity for  
9 the purpose of assessing compliance with or making calculations required  
10 by the master settlement agreement or agreements regarding disputes under  
11 the master settlement agreement, and with counsel for the parties or  
12 expert witnesses in any such proceeding, if the information otherwise  
13 remains confidential.

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

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

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

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

32           ~~X. Notwithstanding any other provision of this section, the~~  
33 ~~department may not disclose information provided by an online lodging~~  
34 ~~marketplace, as defined in section 42-5076, without the written consent of~~  
35 ~~the online lodging marketplace, and the information may be disclosed only~~  
36 ~~pursuant to subsection A, paragraphs 1 through 6, 8 and 10, subsection B,~~  
37 ~~paragraphs 1, 2, 7 and 8 and subsections C, D and G of this section. Such~~  
38 ~~information:~~

39           ~~1. Is not subject to disclosure pursuant to title 39, relating to~~  
40 ~~public records.~~

41           ~~2. May not be disclosed to any agency of this state or of any~~  
42 ~~county, city, town or other political subdivision of this state.~~

1       Sec. 3. Section 42-5005, Arizona Revised Statutes, is amended to  
2 read:

3       42-5005. Transaction privilege tax and municipal privilege  
4               tax licenses: fees: renewal: revocation:  
5               violation; classification

6       A. Every person who receives gross proceeds of sales or gross  
7 income on which a transaction privilege tax is imposed by this article and  
8 who desires to engage or continue in business shall apply to the  
9 department for an annual transaction privilege tax license accompanied by  
10 a fee of \$12. A person shall not engage or continue in business until the  
11 person has obtained a transaction privilege tax license.

12       B. A person desiring to engage or continue in business within a  
13 city or town that imposes a municipal privilege tax shall apply to the  
14 department of revenue for an annual municipal privilege tax license  
15 accompanied by a fee of up to \$50, as established by ordinance of the city  
16 or town. The person shall submit the fee with each new license  
17 application. The person may not engage or continue in business until the  
18 person has obtained a municipal privilege tax license. The department  
19 must collect, hold, pay and manage the fees in trust for the city or town  
20 and may not use the monies for any other purposes. The fee imposed by  
21 this subsection does not apply to a marketplace facilitator or remote  
22 seller that is only required to obtain a transaction privilege tax license  
23 pursuant to section 42-5043.

24       C. A transaction privilege tax license is valid only for the  
25 calendar year in which it is issued, but it may be renewed for the  
26 following calendar year. There is no fee for the renewal of the  
27 transaction privilege tax license. The transaction privilege tax license  
28 must be renewed at the same time and in the manner as the municipal  
29 privilege tax license renewal.

30       D. A municipal privilege tax license is valid only for the calendar  
31 year in which it is issued, but it may be renewed for the following  
32 calendar year by the payment of a license renewal fee of up to \$50. The  
33 renewal fee is due and payable on January 1 and is considered delinquent  
34 if not received on or before the last business day of January. The  
35 department must collect, hold, pay and manage the fees in trust for the  
36 city or town and may not use the monies for any other purposes. The  
37 renewal fee imposed by this subsection does not apply to a marketplace  
38 facilitator or remote seller that is only required to obtain a transaction  
39 privilege tax license pursuant to section 42-5043.

40       E. A licensee that remains in business after the municipal  
41 privilege tax license has expired is subject to the payment of the license  
42 renewal fee and the civil penalty prescribed in section 42-1125,  
43 subsection R.

44       F. If the applicant is not in arrears in payment of any tax imposed  
45 by this article, the department shall issue a license authorizing the

1 applicant to engage and continue in business on the condition that the  
2 applicant complies with this article. The license number shall be  
3 continuous.

4 G. The transaction privilege tax license and the municipal  
5 privilege tax license are not transferable on a complete change of  
6 ownership or change of location of the business. For the purposes of this  
7 subsection:

8 1. "Location" means the business address appearing in the  
9 application for the license and on the transaction privilege tax or  
10 municipal privilege tax license.

11 2. "Ownership" means any right, title or interest in the business.

12 3. "Transferable" means the ability to convey or change the right  
13 or privilege to engage or continue in business by virtue of the issuance  
14 of the transaction privilege tax or municipal privilege tax license.

15 H. When the ownership or location of a business on which a  
16 transaction privilege tax or municipal privilege tax is imposed has been  
17 changed within the meaning of subsection G of this section, the licensee  
18 shall surrender the license to the department. The license shall be  
19 reissued to the new owners or for the new location on application by the  
20 taxpayer and payment of the \$12 fee for a transaction privilege tax  
21 license and a fee of up to \$50 per jurisdiction for a municipal privilege  
22 tax license. The department must collect, hold, pay and manage the fees  
23 in trust for the city or town and may not use the monies for any other  
24 purposes.

25 I. A person who is engaged in or conducting a business in two or  
26 more locations or under two or more business names shall procure a  
27 transaction privilege tax license for each location or business name  
28 regardless of whether all locations or business names are reported on a  
29 consolidated return under a single transaction privilege tax license  
30 number. This requirement shall not be construed as conflicting with  
31 section 42-5020.

32 J. A person who is engaged in or conducting a business in two or  
33 more locations or under two or more business names shall procure a  
34 municipal privilege tax license for each location or business name  
35 regardless of whether all locations or business names are reported on a  
36 consolidated return.

37 K. A person who is engaged in or conducting business at two or more  
38 locations or under two or more business names and who files a consolidated  
39 return under a single transaction privilege tax license number as provided  
40 by section 42-5020 is required to pay only a single municipal privilege  
41 tax license renewal fee for each local jurisdiction pursuant to subsection  
42 D of this section. A person who is engaged in or conducting business at  
43 two or more locations or under two or more business names and who does not  
44 file a consolidated return under a single license number is required to

1 pay a license renewal fee for each location or license in a local  
2 jurisdiction.

3 ~~L. For the purposes of this chapter and chapter 6 of this title:~~

4 ~~1. Through December 31, 2018, an online lodging marketplace, as~~  
5 ~~defined in section 42-5076, may register with the department for a license~~  
6 ~~for the payment of taxes levied by this state and one or more counties,~~  
7 ~~cities, towns or special taxing districts, at the election of the online~~  
8 ~~lodging marketplace, for taxes due from an online lodging operator on any~~  
9 ~~online lodging transaction facilitated by the online lodging marketplace,~~  
10 ~~subject to sections 42-5076 and 42-6009.~~

11 ~~2. Beginning from and after December 31, 2018, an online lodging~~  
12 ~~marketplace, as defined in section 42-5076, shall register with the~~  
13 ~~department for a license for the payment of taxes levied by this state and~~  
14 ~~one or more counties, cities, towns or special taxing districts for taxes~~  
15 ~~due from an online lodging operator on any online lodging transaction~~  
16 ~~facilitated by the online lodging marketplace, subject to sections 42-5076~~  
17 ~~and 42-6009.~~

18 ~~M. For the purposes of this chapter and chapter 6 of this title, a~~  
19 ~~person who is licensed pursuant to title 32, chapter 20 and who files an~~  
20 ~~electronic consolidated tax return for individual real properties under~~  
21 ~~management on behalf of the property owners may be licensed with the~~  
22 ~~department for the payment of taxes levied by this state and by any~~  
23 ~~county, city or town with respect to those properties. There is no fee~~  
24 ~~for a license issued pursuant to this subsection.~~

25 ~~N.~~ L. If a person violates this article or any rule adopted under  
26 this article, the department ~~upon~~ ON hearing may revoke any transaction  
27 privilege tax or municipal privilege tax license issued to the  
28 person. The department shall provide ten days' written notice of the  
29 hearing, stating the time and place and requiring the person to appear and  
30 show cause why the license or licenses should not be revoked. The  
31 department shall provide written notice to the person of the revocation of  
32 the license. The notices may be served personally or by mail pursuant to  
33 section 42-5037. After revocation, the department shall not issue a new  
34 license to the person unless the person presents evidence satisfactory to  
35 the department that the person will comply with this article and with the  
36 rules adopted under this article. The department may prescribe the terms  
37 under which a revoked license may be reissued.

38 ~~O.~~ M. The department may revoke any transaction privilege tax or  
39 municipal privilege tax license issued to any person who fails for  
40 thirteen consecutive months to make and file a return required by this  
41 article on or before the due date or the due date as extended by the  
42 department unless the failure is due to a reasonable cause and not due to  
43 wilful neglect.

44 ~~P.~~ N. A person who violates any provision of this section is  
45 guilty of a class 3 misdemeanor.

1           Sec. 4. Section 42-5009, Arizona Revised Statutes, is amended to  
2 read:

3           42-5009. Certificates establishing deductions; liability for  
4                   making false certificate

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

8           1. Marking the invoice for the transaction to indicate that the  
9 gross proceeds of sales or gross income derived from the transaction was  
10 deducted from the tax base.

11           2. Obtaining a certificate executed by the purchaser indicating the  
12 name and address of the purchaser, the precise nature of the business of  
13 the purchaser, the purpose for which the purchase was made, the necessary  
14 facts to establish the appropriate deduction and the tax license number of  
15 the purchaser to the extent the deduction depends on the purchaser  
16 conducting business classified under article 2 of this chapter and a  
17 certification that the person executing the certificate is authorized to  
18 do so on behalf of the purchaser. The certificate may be disregarded if  
19 the seller has reason to believe that the information contained in the  
20 certificate is not accurate or complete.

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

24           C. The department may prescribe a form for the certificate  
25 described in subsection A of this section. Under such rules as it may  
26 prescribe, the department may also describe transactions with respect to  
27 which a person is not entitled to rely solely on the information contained  
28 in the certificate provided for in subsection A of this section but must  
29 instead obtain such additional information as required by the rules in  
30 order to be entitled to the deduction.

31           D. If a seller is entitled to a deduction by complying with  
32 subsection A of this section, the department may require the purchaser  
33 that caused the execution of the certificate to establish the accuracy and  
34 completeness of the information required to be contained in the  
35 certificate that would entitle the seller to the deduction. If the  
36 purchaser cannot establish the accuracy and completeness of the  
37 information, the purchaser is liable in an amount equal to any tax,  
38 penalty and interest that the seller would have been required to pay under  
39 this article if the seller had not complied with subsection A of this  
40 section. Payment of the amount under this subsection exempts the  
41 purchaser from liability for any tax imposed under article 4 of this  
42 chapter. The amount shall be treated as tax revenues collected from the  
43 seller in order to designate the distribution base for purposes of section  
44 42-5029.

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

13           F. The department may prescribe a form for a certificate used to  
14 establish entitlement to the deductions described in section 42-5061,  
15 subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3.  
16 Under rules the department may prescribe, the department may also require  
17 additional information for the seller to be entitled to the deduction. If  
18 a seller is entitled to the deductions described in section 42-5061,  
19 subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3,  
20 the department may require the purchaser who executed the certificate to  
21 establish the accuracy and completeness of the information contained in  
22 the certificate that would entitle the seller to the deduction. If the  
23 purchaser cannot establish the accuracy and completeness of the  
24 information, the purchaser is liable in an amount equal to any tax,  
25 penalty and interest that the seller would have been required to pay under  
26 this article. Payment of the amount under this subsection exempts the  
27 purchaser from liability for any tax imposed under article 4 of this  
28 chapter. The amount shall be treated as tax revenues collected from the  
29 seller in order to designate the distribution base for purposes of section  
30 42-5029.

31           G. If a seller claims a deduction under section 42-5061,  
32 subsection A, paragraph 25 and establishes entitlement to the deduction  
33 with an exemption letter that the purchaser received from the department  
34 and the exemption letter was based on a contingent event, the department  
35 may require the purchaser that received the exemption letter to establish  
36 the satisfaction of the contingent event within a reasonable time. If the  
37 purchaser cannot establish the satisfaction of the event, the purchaser is  
38 liable in an amount equal to any tax, penalty and interest that the seller  
39 would have been required to pay under this article if the seller had not  
40 been furnished the exemption letter. Payment of the amount under this  
41 subsection exempts the purchaser from liability for any tax imposed under  
42 article 4 of this chapter. The amount shall be treated as tax revenues  
43 collected from the seller in order to designate the distribution base for  
44 purposes of section 42-5029. For the purposes of this subsection,

1 "reasonable time" means a time limitation that the department determines  
2 and that does not exceed the time limitations pursuant to section 42-1104.

3 H. The department shall prescribe forms for certificates used to  
4 establish the satisfaction of the criteria necessary to qualify the sale  
5 of a motor vehicle for the deductions described in section 42-5061,  
6 subsection A, paragraph 14, paragraph 28, subdivision (a) and paragraph 44  
7 and subsection U. Except as provided in subsection J of this section, to  
8 establish entitlement to these deductions, a motor vehicle dealer shall  
9 retain:

10 1. A valid certificate as prescribed by this subsection completed  
11 by the purchaser and obtained ~~prior to~~ BEFORE the issuance of the  
12 nonresident registration permit authorized by section 28-2154.

13 2. A copy of the nonresident registration permit authorized by  
14 section 28-2154.

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

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

24 I. Notwithstanding subsection A, paragraph 2 of this section, if a  
25 motor vehicle dealer has established entitlement to a deduction by  
26 complying with subsection H of this section, the department may require  
27 the purchaser who executed the certificate to establish the accuracy and  
28 completeness of the information contained in the certificate that entitled  
29 the motor vehicle dealer to the deduction. If the purchaser cannot  
30 establish the accuracy and completeness of the information, the purchaser  
31 is liable in an amount equal to any tax, penalty and interest that the  
32 motor vehicle dealer would have been required to pay under this article  
33 and under articles IV and V of the model city tax code as defined in  
34 section 42-6051. Payment of the amount under this subsection exempts the  
35 purchaser from liability for any tax imposed under article 4 of this  
36 chapter and any tax imposed under article VI of the model city tax code as  
37 defined in section 42-6051. The amount shall be treated as tax revenues  
38 collected from the motor vehicle dealer in order to designate the  
39 distribution base for purposes of section 42-5029.

40 J. To establish entitlement to the deduction described in section  
41 42-5061, subsection A, paragraph 44, a public consignment auction dealer  
42 as defined in section 28-4301 shall submit the valid certificate  
43 prescribed by subsection H of this section to the department and retain a  
44 copy for its records.

1 K. Notwithstanding any other law, compliance with subsection H of  
2 this section by a motor vehicle dealer entitles the motor vehicle dealer  
3 to the exemption provided in section 42-6004, subsection A, paragraph 4.

4 L. The department shall prescribe a form for a certificate to be  
5 used by a person that is not subject to tax under section 42-5075 when the  
6 person is engaged by a contractor that is subject to tax under section  
7 42-5075 for a project that is taxable under section 42-5075. The  
8 certificate permits the person purchasing tangible personal property to be  
9 incorporated or fabricated by the person into any real property,  
10 structure, project, development or improvement to provide documentation to  
11 a retailer that the sale of tangible personal property qualifies for the  
12 deduction under section 42-5061, subsection A, paragraph 27,  
13 subdivision (b). A prime contractor shall obtain the certificate from the  
14 department and shall provide a copy to any such person working on the  
15 project. The prime contractor shall obtain a new certificate for each  
16 project to which this subsection applies. For the purposes of this  
17 subsection, the following apply:

18 1. The person that is not subject to tax under section 42-5075 may  
19 use the certificate issued pursuant to this subsection only with respect  
20 to tangible personal property that will be incorporated into a project for  
21 which the gross receipts are subject to tax under section 42-5075.

22 2. The department shall issue the certificate to the prime  
23 contractor on receiving sufficient documentation to establish that the  
24 prime contractor meets the requirements of this subsection.

25 3. If any person uses the certificate provided under this  
26 subsection to purchase tangible personal property to be used in a project  
27 that is not subject to tax under section 42-5075, the person is liable in  
28 an amount equal to any tax, penalty and interest that the seller would  
29 have been required to pay under this article if the seller had not  
30 complied with subsection A of this section. Payment of the amount under  
31 this section exempts the person from liability for any tax imposed under  
32 article 4 of this chapter. The amount shall be sourced under section  
33 42-5040, subsection A, paragraph 2.

34 M. Notwithstanding any other law, compliance with subsection L of  
35 this section by a person that is not subject to tax under section 42-5075  
36 entitles the person to the exemption allowed by section 465,  
37 subsection (k) of the model city tax code when purchasing tangible  
38 personal property to be incorporated or fabricated by the person into any  
39 real property, structure, project, development or improvement.

40 N. The requirements of subsections A and B of this section do not  
41 apply to owners, proprietors or tenants of agricultural lands or farms who  
42 sell livestock or poultry feed that is grown or raised on their lands to  
43 any of the following:

44 1. Persons who feed their own livestock or poultry.

2. Persons who are engaged in the business of producing livestock or poultry commercially.

3. Persons who are engaged in the business of feeding livestock or poultry commercially or who board livestock noncommercially.

0. A vendor who has reason to believe that a certificate prescribed by this section is not accurate or complete will not be relieved of the burden of proving entitlement to the exemption. A vendor that accepts a certificate in good faith will be relieved of the burden of proof and the purchaser may be required to establish the accuracy of the claimed exemption. If the purchaser cannot establish the accuracy and completeness of the information provided in the certificate, the purchaser is liable for an amount equal to the transaction privilege tax, penalty and interest that the vendor would have been required to pay if the vendor had not accepted the certificate.

~~P. Notwithstanding any other law, an online lodging operator, as defined in section 42-5076, shall be entitled to an exclusion from any applicable taxes for any online lodging transaction, as defined in section 42-5076, facilitated by an online lodging marketplace, as defined in section 42-5076, for which the online lodging operator has obtained from the online lodging marketplace written notice that the online lodging marketplace is registered with the department to collect applicable taxes for all online lodging transactions facilitated by the online lodging marketplace, and transaction history documenting tax collected by the online lodging marketplace, pursuant to section 42-5005, subsection L.~~

~~Q.~~ P. The department shall prescribe the form of a certificate to be used by a person purchasing an aircraft to document eligibility for a deduction pursuant to section 42-5061, subsection B, paragraph 7, subdivision (a), item (v) or an exemption pursuant to section 42-5159, subsection B, paragraph 7, subdivision (a), item (v), relating to aircraft. The person must provide this certificate and documentation confirming that the operational control of the aircraft has been transferred or will be transferred immediately after the purchase to one or more persons described in section 42-5061, subsection B, paragraph 7, subdivision (a), item (i), (ii), (iii) or (iv) or section 42-5159, subsection B, paragraph 7, subdivision (a), item (i), (ii), (iii) or (iv). Operational control of the aircraft must be transferred for at least fifty percent of the aircraft's flight hours. If such operational control is not transferred for at least fifty percent of the aircraft's flight hours during the recapture period, the owner of the aircraft is liable for an amount equal to any tax that the seller or purchaser would have been required to pay under this chapter at the time of the sale, plus penalty and interest. The recapture period begins on the date that operational control of the aircraft is first transferred and ends on the later of the date the aircraft is fully depreciated for federal income tax purposes or five years after operational control was first transferred. For the

1 purposes of this subsection, operational control of the aircraft must be  
2 within the meaning of federal aviation administration operations  
3 specification A008, or its successor, except that:

4 1. If it is determined that operational control has been  
5 transferred for less than fifty percent but more than forty percent of the  
6 aircraft's flight hours, the owner of the aircraft is liable for an amount  
7 equal to any tax that the seller or purchaser would have been required to  
8 pay under this chapter at the time of the sale, plus interest.

9 2. If the aircraft is sold during the recapture period, the seller  
10 is not liable for the amount determined pursuant to this subsection unless  
11 the operational control of the aircraft had not been transferred for at  
12 least fifty percent of the aircraft's flight hours at the time of the  
13 sale.

14 Sec. 5. Section 42-5010, Arizona Revised Statutes, is amended to  
15 read:

16 42-5010. Rates; distribution base

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

19 1. Five percent of the tax base as computed for the business of  
20 every person engaging or continuing in this state in the following  
21 business classifications described in article 2 of this chapter:

22 (a) Transporting classification.

23 (b) Utilities classification.

24 (c) Telecommunications classification.

25 (d) Pipeline classification.

26 (e) Private car line classification.

27 (f) Publication classification.

28 (g) Job printing classification.

29 (h) Prime contracting classification.

30 (i) Amusement classification.

31 (j) Restaurant classification.

32 (k) Personal property rental classification.

33 (l) Retail classification and amounts equal to retail transaction  
34 privilege tax due pursuant to section 42-5008.01.

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

37 ~~(a)~~ the transient lodging classification described in section  
38 42-5070.

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

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

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

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

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

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

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

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

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

42          H. Any increase in the rate of tax that is imposed by this chapter  
43 and that is enacted by the legislature or by a vote of the people does not  
44 apply with respect to contracts entered into by prime contractors or  
45 pursuant to written bids made by prime contractors on or before the

1 effective date of the legislation or the date of the election enacting the  
2 increase. To qualify for the exemption under this subsection, the prime  
3 contractor must maintain sufficient documentation, in a manner and form  
4 prescribed by the department, to verify the date of the contract or  
5 written bid.

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

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

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

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

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

34 Sec. 6. Section 42-5014, Arizona Revised Statutes, is amended to  
35 read:

36 42-5014. Return and payment of tax; estimated tax;  
37 extensions; abatements

38 A. Except as provided in subsection B, C, ~~OR D, E or F~~ of this  
39 section, the taxes levied under this article:

40 1. Are due and payable monthly in the form required by section  
41 42-5018 for the amount of the tax, to the department, on or before the  
42 twentieth day of the month next succeeding the month in which the tax  
43 accrues.

44 2. Are delinquent as follows:

1 (a) For taxpayers that are required or elect to file and pay  
2 electronically in any month, if not received by the department on or  
3 before the last business day of the month.

4 (b) For all other taxpayers, if not received by the department on  
5 or before the business day preceding the last business day of the month.

6 B. The department, for any taxpayer whose estimated annual  
7 liability for taxes imposed or administered by this article or chapter 6  
8 of this title is between \$2,000 and \$8,000, shall authorize the taxpayer  
9 to pay the taxes on a quarterly basis. The department, for any taxpayer  
10 whose estimated annual liability for taxes imposed by this article is less  
11 than \$2,000, shall authorize the taxpayer to pay the taxes on an annual  
12 basis. For the purposes of this subsection, the taxes due under this  
13 article:

14 1. For taxpayers that are authorized to pay on a quarterly basis,  
15 are due and payable monthly in the form required by section 42-5018 for  
16 the amount of the tax, to the department, on or before the twentieth day  
17 of the month next succeeding the quarter in which the tax accrues.

18 2. For taxpayers that are authorized to pay on an annual basis, are  
19 due and payable monthly in the form required by section 42-5018 for the  
20 amount of the tax, to the department, on or before the twentieth day of  
21 January next succeeding the year in which the tax accrues.

22 3. Are delinquent as follows:

23 (a) For taxpayers that are required or elect to file and pay  
24 electronically in any quarter, if not received by the department on or  
25 before the last business day of the month.

26 (b) For all other taxpayers that are required to file and pay  
27 quarterly, if not received by the department on or before the business day  
28 preceding the last business day of the month.

29 (c) For taxpayers that are required or elect to file and pay  
30 electronically on an annual basis, if not received by the department on or  
31 before the last business day of January.

32 (d) For all other taxpayers that are required to file and pay  
33 annually, if not received by the department on or before the business day  
34 preceding the last business day of January.

35 C. The department may require a taxpayer whose business is of a  
36 transient character to file the return and remit the taxes imposed by this  
37 article on a daily, a weekly or a transaction-by-transaction basis, and  
38 those returns and payments are due and payable on the date fixed by the  
39 department without a grace period otherwise allowed by this section. For  
40 the purposes of this subsection, "business of a transient character" means  
41 sales activity by a taxpayer not regularly engaged in selling within this  
42 state that is conducted from vehicles, portable stands, rented spaces,  
43 structures or booths, or concessions at fairs, carnivals, circuses,  
44 festivals or similar activities for not more than thirty consecutive days.

1 D. If the business entity under which a taxpayer reports and pays  
2 income tax under title 43 has an annual total tax liability under this  
3 article, article 6 of this chapter and chapter 6, article 3 of this title  
4 of \$1,000,000 or more in 2019, \$1,600,000 or more in 2020, \$2,300,000 or  
5 more in 2021, \$3,100,000 or more in 2022, ~~OR~~ \$4,100,000 or more in 2023  
6 and each year thereafter, based on the actual tax liability in the  
7 preceding calendar year, regardless of the number of offices at which the  
8 taxes imposed by this article, article 6 of this chapter or chapter 6,  
9 article 3 of this title are collected, or if the taxpayer can reasonably  
10 anticipate such liability in the current year, the taxpayer shall report  
11 on a form prescribed by the department and pay an estimated tax payment  
12 each June. Any other taxpayer may voluntarily elect to pay the estimated  
13 tax payment pursuant to this subsection. The payment shall be made on or  
14 before June 20 and is delinquent if not received by the department on or  
15 before the business day preceding the last business day of June for those  
16 taxpayers electing to file by mail, or delinquent if not received by the  
17 department on the business day preceding the last business day of June for  
18 those taxpayers electing to file in person. The estimated tax paid shall  
19 be credited against the taxpayer's tax liability under this article,  
20 article 6 of this chapter and chapter 6, article 3 of this title for the  
21 month of June for the current calendar year. The estimated tax payment  
22 shall equal either:

23 1. One-half of the actual tax liability under this article plus  
24 one-half of any tax liability under article 6 of this chapter and chapter  
25 6, article 3 of this title for May of the current calendar year.

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

29 ~~E. An online lodging marketplace, as defined in section 42-5076,~~  
30 ~~that is registered with the department pursuant to section 42-5005,~~  
31 ~~subsection L:~~

32 ~~1. Shall remit to the department the applicable taxes payable~~  
33 ~~pursuant to section 42-5076 and chapter 6 of this title with respect to~~  
34 ~~each online lodging transaction, as defined in section 42-5076,~~  
35 ~~facilitated by the online lodging marketplace.~~

36 ~~2. Shall report the taxes monthly and remit the aggregate total~~  
37 ~~amounts for each of the respective taxing jurisdictions.~~

38 ~~3. Shall not be required to list or otherwise identify any~~  
39 ~~individual online lodging operator, as defined in section 42-5076, on any~~  
40 ~~return or any attachment to a return.~~

41 ~~F. A person who is licensed pursuant to title 32, chapter 20 and~~  
42 ~~who is licensed with the department pursuant to section 42-5005,~~  
43 ~~subsection M shall:~~

~~1. File a consolidated return monthly with respect to all managed properties for which the licensee files an electronic consolidated tax return pursuant to section 42-6013.~~

~~2. Remit to the department the aggregate total amount of the applicable taxes payable pursuant to this chapter and chapter 6 of this title for all of the respective taxing jurisdictions with respect to the managed properties.~~

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

~~H.~~ F. Any person who is taxable under this article and who makes cash and credit sales shall report the cash and credit sales separately and may apply for and obtain from the department an extension of time to pay taxes due on the credit sales. The department shall grant the extension under such rules as the department prescribes. When the extension is granted, the taxpayer shall thereafter include in each monthly report all collections made on such credit sales during the month next preceding and shall pay the taxes due at the time of filing such a report.

~~I.~~ G. The returns required under this article shall be made on forms prescribed by the department and shall capture data with sufficient specificity to meet the needs of all taxing jurisdictions.

~~J.~~ H. Any person who is engaged in or conducting business in two or more locations or under two or more business names shall file the return required under this article using an electronic filing program established by the department.

~~K.~~ I. For taxable periods beginning from and after December 31, 2017, any taxpayer with an annual total tax liability under this chapter and chapter 6 of this title of \$20,000 or more, based on the actual tax liability in the preceding calendar year, regardless of the number of offices at which the taxes imposed by this chapter or chapter 6 of this title are collected, or a taxpayer that can reasonably anticipate that liability in the current year, shall file the return required under this article using an electronic filing program established by the department.

~~L.~~ J. For taxable periods beginning from and after December 31, 2018, any taxpayer with an annual total tax liability under this chapter

1 and chapter 6 of this title of \$10,000 or more, based on the actual tax  
2 liability in the preceding calendar year, regardless of the number of  
3 offices at which the taxes imposed by this chapter or chapter 6 of this  
4 title are collected, or a taxpayer that can reasonably anticipate that  
5 liability in the current year, shall file the return required under this  
6 article using an electronic filing program established by the department.

7 ~~M.~~ K. For taxable periods beginning from and after December 31,  
8 2019, any taxpayer with an annual total tax liability under this chapter  
9 and chapter 6 of this title of \$5,000 or more, based on the actual tax  
10 liability in the preceding calendar year, regardless of the number of  
11 offices at which the taxes imposed by this chapter or chapter 6 of this  
12 title are collected, or a taxpayer that can reasonably anticipate that  
13 liability in the current year, shall file the return required under this  
14 article using an electronic filing program established by the department.

15 ~~N.~~ L. For taxable periods beginning from and after December 31,  
16 2020, any taxpayer with an annual total tax liability under this chapter  
17 and chapter 6 of this title of \$500 or more, based on the actual tax  
18 liability in the preceding calendar year, regardless of the number of  
19 offices at which the taxes imposed by this chapter or chapter 6 of this  
20 title are collected, or a taxpayer that can reasonably anticipate that  
21 liability in the current year, shall file the return required under this  
22 article using an electronic filing program established by the department.

23 ~~O.~~ M. Any taxpayer that is required to report and pay using an  
24 electronic filing program established by the department may apply to the  
25 director, on a form prescribed by the department, for an annual waiver  
26 from the electronic filing requirement. The director may grant a waiver,  
27 which may be renewed, if any of the following applies:

- 28 1. The taxpayer has no computer.
  - 29 2. The taxpayer has no internet access.
  - 30 3. Any other circumstance considered to be worthy by the director
- 31 exists.

32 ~~P.~~ N. A waiver is not required if the return cannot be  
33 electronically filed for reasons beyond the taxpayer's control, including  
34 situations in which the taxpayer was instructed by either the internal  
35 revenue service or the department of revenue to file by paper.

36 ~~O.~~ O. The department, for good cause, may extend the time for  
37 making any return required by this article and may grant such reasonable  
38 additional time within which to make the return as it deems proper, but  
39 the time for filing the return shall not be extended beyond the first day  
40 of the third month next succeeding the regular due date of the return.

41 ~~R.~~ P. The department, with the approval of the attorney general,  
42 may abate small tax balances if the administration costs exceed the amount  
43 of tax due.

44 ~~S.~~ Q. For the purposes of subsection D of this section, "taxpayer"  
45 means the business entity under which the business reports and pays state

1 income taxes regardless of the number of offices at which the taxes  
2 imposed by this article, article 6 of this chapter or chapter 6, article 3  
3 of this title are collected.

4 Sec. 7. Repeal

5 Section ~~42-5042~~, Arizona Revised Statutes, is repealed.

6 Sec. 8. Section 42-5061, Arizona Revised Statutes, as amended by  
7 Laws 2019, chapter 273, section 7 and chapter 288, section 1, is amended  
8 to read:

9 ~~42-5061.~~ Retail classification; definitions

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

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

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

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

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

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

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

32 7. The sale of stocks and bonds.

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

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

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

41 11. Prescription eyeglasses or contact lenses.

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

43 13. Durable medical equipment that has a centers for medicare and  
44 medicaid services common procedure code, is designated reimbursable by  
45 medicare, is prescribed by a person who is licensed under title 32,

1 chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is  
2 primarily and customarily used to serve a medical purpose, is generally  
3 not useful to a person in the absence of illness or injury and is  
4 appropriate for use in the home.

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

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

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

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

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

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

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

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

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

1 to acquire tangible personal property, intangibles or services in the  
2 future, whether from the seller of the cash equivalent or from another  
3 person. Cash equivalents do not include either of the following:

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

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

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

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

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

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

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

28 25. Tangible personal property sold to:

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

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

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

39 (d) A qualifying community health center as defined in section  
40 42-5001.

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

44 (f) For taxable periods beginning from and after June 30, 2001, a  
45 nonprofit charitable organization that has qualified under section

1 501(c)(3) of the internal revenue code and that provides residential  
2 apartment housing for low income persons over sixty-two years of age in a  
3 facility that qualifies for a federal housing subsidy, if the tangible  
4 personal property is used by the organization solely to provide  
5 residential apartment housing for low income persons over sixty-two years  
6 of age in a facility that qualifies for a federal housing subsidy.

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

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

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

15 27. Tangible personal property sold to:

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

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

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

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

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

33 28. The sale of a motor vehicle to:

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

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

41 29. Tangible personal property purchased in this state by a  
42 nonprofit charitable organization that has qualified under section  
43 501(c)(3) of the United States internal revenue code and that engages in  
44 and uses such property exclusively in programs for persons with mental or

1 physical disabilities if the programs are exclusively for training, job  
2 placement, rehabilitation or testing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

44           40. Sales of food, drink and condiment for consumption within the  
45 premises of any prison, jail or other institution under the jurisdiction

1 of the state department of corrections, the department of public safety,  
2 the department of juvenile corrections or a county sheriff.

3 41. A motor vehicle and any repair and replacement parts and  
4 tangible personal property becoming a part of such motor vehicle sold to a  
5 motor carrier ~~who~~ THAT is subject to a fee prescribed in title 28, chapter  
6 16, article 4 and ~~who~~ THAT is engaged in the business of leasing or  
7 renting such property.

8 42. Sales of:

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

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

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

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

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

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

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

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

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

43 48. Tangible personal property sold to a commercial airline and  
44 consisting of food, beverages and condiments and accessories used for  
45 serving the food and beverages, if those items are to be provided without

1 additional charge to passengers for consumption in flight. For the  
2 purposes of this paragraph, "commercial airline" means a person holding a  
3 federal certificate of public convenience and necessity or foreign air  
4 carrier permit for air transportation to transport persons, property or  
5 United States mail in intrastate, interstate or foreign commerce.

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

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

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

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

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

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

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

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

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

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

1 equivalent of conventional energy resources displaced by distributed  
2 renewable energy resources.

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

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

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

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

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

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

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

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

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

43 1. Machinery, or equipment, used directly in manufacturing,  
44 processing, fabricating, job printing, refining or metallurgical  
45 operations. The terms "manufacturing", "processing", "fabricating", "job

1 printing", "refining" and "metallurgical" as used in this paragraph refer  
2 to and include those operations commonly understood within their ordinary  
3 meaning. "Metallurgical operations" includes leaching, milling,  
4 precipitating, smelting and refining.

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

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

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

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

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

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

34 (a) A person:

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

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

44 (iii) Holding a foreign air carrier permit for air transportation  
45 for use as or in conjunction with or becoming a part of aircraft to be

1 used to transport persons, property or United States mail in intrastate,  
2 interstate or foreign commerce.

3 (iv) Operating an aircraft to transport persons in any manner for  
4 compensation or hire, or for use in a fractional ownership program that  
5 meets the requirements of federal aviation administration regulations (14  
6 Code of Federal Regulations part 91, subpart K), including as an air  
7 carrier, a foreign air carrier or a commercial operator or under a  
8 restricted category, within the meaning of 14 Code of Federal Regulations,  
9 regardless of whether the operation or aircraft is regulated or certified  
10 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code  
11 of Federal Regulations.

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

17 (b) Any foreign government.

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

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

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

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

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

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

43 13. New machinery and equipment consisting of agricultural  
44 aircraft, tractors, tractor-drawn implements, self-powered implements,  
45 machinery and equipment necessary for extracting milk, and machinery and

1 equipment necessary for cooling milk and livestock, and drip irrigation  
2 lines not already exempt under paragraph 6 of this subsection and that are  
3 used for commercial production of agricultural, horticultural,  
4 viticultural and floricultural crops and products in this state. For the  
5 purposes of this paragraph:

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

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

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

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

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

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

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

36 (ii) Over two-thirds of the transmissions, measured in megabytes,  
37 transmitted by or on behalf of those direct broadcast television or data  
38 transmission services during the test period were transmitted by the  
39 facility to or on behalf of those services. For the purposes of  
40 subdivision (b) of this paragraph, "test period" means the three hundred  
41 sixty-five day period beginning on the later of the date on which the  
42 tangible personal property is purchased or the date on which the direct  
43 broadcast satellite television or data transmission service first  
44 transmits information to its customers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23 2. Janitorial equipment and hand tools.

24 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

29 2. Businesses classified under the:

30 (a) Transporting classification.

31 (b) Utilities classification.

32 (c) Telecommunications classification.

33 (d) Pipeline classification.

34 (e) Private car line classification.

35 (f) Publication classification.

36 (g) Job printing classification.

37 (h) Prime contracting classification.

38 (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

43          O. For the purposes of this section, a sale of wireless  
44    telecommunications equipment to a person who holds the equipment for sale  
45    or transfer to a customer as an inducement to enter into or continue a

1 contract for telecommunications services that are taxable under section  
2 42-5064 is considered to be a sale for resale in the regular course of  
3 business.

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

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

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

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

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

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

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

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

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

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

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

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

20           V. For the purposes of this section:

21           1. "Agricultural aircraft" means an aircraft that is built for  
22 agricultural use for the aerial application of pesticides or fertilizer or  
23 for aerial seeding.

24           2. "Aircraft" includes:

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

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

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

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

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

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

44           2. "Manufacturer" means a person who is principally engaged in the  
45 fabrication, production or manufacture of products, wares or articles for

1 use from raw or prepared materials, imparting to those materials new  
2 forms, qualities, properties and combinations.

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

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

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

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

24 Sec. 9. Section 42-5061, Arizona Revised Statutes, as amended by  
25 Laws 2019, chapter 273, section 8 and chapter 288, section 2, is amended  
26 to read:

27 42-5061. Retail classification; definitions

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

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

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

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

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

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

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

6           7. The sale of stocks and bonds.

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

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

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

15          11. Prescription eyeglasses or contact lenses.

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

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

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

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

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

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

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

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

1 persons for consumption on the premises of a public school within the  
2 district or on the premises of the charter school during school hours.

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

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

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

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

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

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

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

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

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

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

4           25. Tangible personal property sold to:

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

6           (b) A qualifying health care organization as defined in section  
7 42-5001 if the tangible personal property is used by the organization  
8 solely to provide health and medical related educational and charitable  
9 services.

10          (c) A qualifying health care organization as defined in section  
11 42-5001 if the organization is dedicated to providing educational,  
12 therapeutic, rehabilitative and family medical education training for  
13 blind and visually impaired children and children with multiple  
14 disabilities from the time of birth to age twenty-one.

15          (d) A qualifying community health center as defined in section  
16 42-5001.

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

20          (f) For taxable periods beginning from and after June 30, 2001, a  
21 nonprofit charitable organization that has qualified under section  
22 501(c)(3) of the internal revenue code and that provides residential  
23 apartment housing for low income persons over sixty-two years of age in a  
24 facility that qualifies for a federal housing subsidy, if the tangible  
25 personal property is used by the organization solely to provide  
26 residential apartment housing for low income persons over sixty-two years  
27 of age in a facility that qualifies for a federal housing subsidy.

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

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

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

36          27. Tangible personal property sold to:

37          (a) A person that is subject to tax under this article by reason of  
38 being engaged in business classified under section 42-5075 or to a  
39 subcontractor working under the control of a person engaged in business  
40 classified under section 42-5075, if the property so sold is any of the  
41 following:

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

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

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

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

10 28. The sale of a motor vehicle to:

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

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

18 29. Tangible personal property purchased in this state by a  
19 nonprofit charitable organization that has qualified under section  
20 501(c)(3) of the United States internal revenue code and that engages in  
21 and uses such property exclusively in programs for persons with mental or  
22 physical disabilities if the programs are exclusively for training, job  
23 placement, rehabilitation or testing.

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

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

42 32. Sales of tangible personal property by a nonprofit organization  
43 that is exempt from taxation under section 501(c)(3), 501(c)(4),  
44 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the  
45 organization sponsors or operates a rodeo featuring primarily farm and

1 ranch animals and no part of the organization's net earnings inures to the  
2 benefit of any private shareholder or individual.

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

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

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

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

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

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

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

37 38. Sales of liquid, solid or gaseous chemicals used in  
38 manufacturing, processing, fabricating, mining, refining, metallurgical  
39 operations, research and development and, beginning on January 1, 1999,  
40 printing, if using or consuming the chemicals, alone or as part of an  
41 integrated system of chemicals, involves direct contact with the materials  
42 from which the product is produced for the purpose of causing or  
43 permitting a chemical or physical change to occur in the materials as part  
44 of the production process. This paragraph does not include chemicals that  
45 are used or consumed in activities such as packaging, storage or

1 transportation but does not affect any deduction for such chemicals that  
2 is otherwise provided by this section. For the purposes of this  
3 paragraph, "printing" means a commercial printing operation and includes  
4 job printing, engraving, embossing, copying and bookbinding.

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

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

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

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

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

28 42. Sales of:

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

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

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

44 44. Sales of motor vehicles at auction to nonresidents of this  
45 state for use outside this state if the vehicles are shipped or delivered

1 out of this state, regardless of where title to the motor vehicles passes  
2 or its free on board point.

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

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

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

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

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

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

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

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

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

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

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

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

3 (b) "Curriculum design or enhancement" means planning, implementing  
4 or reporting on courses of study, lessons, assignments or other learning  
5 activities.

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

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

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

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

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

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

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

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

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

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

9 61. Sales of coal.

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

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

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

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

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

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

44 5. Neat animals, horses, asses, sheep, ratites, swine or goats used  
45 or to be used as breeding or production stock, including sales of

1 breedings or ownership shares in such animals used for breeding or  
2 production.

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

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

9 (a) A person:

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

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

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

23 (iv) Operating an aircraft to transport persons in any manner for  
24 compensation or hire, or for use in a fractional ownership program that  
25 meets the requirements of federal aviation administration regulations  
26 (14 Code of Federal Regulations part 91, subpart K), including as an air  
27 carrier, a foreign air carrier or a commercial operator or under a  
28 restricted category, within the meaning of 14 Code of Federal Regulations,  
29 regardless of whether the operation or aircraft is regulated or certified  
30 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code  
31 of Federal Regulations.

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

37 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

44        18. Machinery or equipment, including related structural  
45 components, that is employed in connection with manufacturing, processing,

1 fabricating, job printing, refining, mining, natural gas pipelines,  
2 metallurgical operations, telecommunications, producing or transmitting  
3 electricity or research and development and that is used directly to meet  
4 or exceed rules or regulations adopted by the federal energy regulatory  
5 commission, the United States environmental protection agency, the United  
6 States nuclear regulatory commission, the Arizona department of  
7 environmental quality or a political subdivision of this state to prevent,  
8 monitor, control or reduce land, water or air pollution.

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

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

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

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

29 (c) Any machinery or equipment purchased after the television  
30 station has ceased analog broadcasting, or purchased after November 1,  
31 2009, whichever occurs first.

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

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

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

44 2. Janitorial equipment and hand tools.

45 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

5           2. Businesses classified under the:

6           (a) Transporting classification.

7           (b) Utilities classification.

8           (c) Telecommunications classification.

9           (d) Pipeline classification.

10          (e) Private car line classification.

11          (f) Publication classification.

12          (g) Job printing classification.

13          (h) Prime contracting classification.

14          (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

19 O. For the purposes of this section, a sale of wireless  
20 telecommunications equipment to a person who holds the equipment for sale  
21 or transfer to a customer as an inducement to enter into or continue a  
22 contract for telecommunications services that are taxable under section  
23 42-5064 is considered to be a sale for resale in the regular course of  
24 business.

25 P. Retail sales of prepaid calling cards or prepaid authorization  
26 numbers for telecommunications services, including sales of  
27 reauthorization of a prepaid card or authorization number, are subject to  
28 tax under this section.

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

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

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

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

1 paragraph 15, subdivision (b) of this section. Payment of the amount  
2 under this subsection exempts the purchaser from liability for any tax  
3 imposed under article 4 of this chapter and related to the tangible  
4 personal property purchased. The amount shall be treated as transaction  
5 privilege tax to the purchaser and as tax revenues collected from the  
6 seller to designate the distribution base pursuant to section 42-5029.

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

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

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

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

29 U. For the purposes of this section:

30 1. "Agricultural aircraft" means an aircraft that is built for  
31 agricultural use for the aerial application of pesticides or fertilizer or  
32 for aerial seeding.

33 2. "Aircraft" includes:

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

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

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

43 4. "Selling at retail" means a sale for any purpose other than for  
44 resale in the regular course of business in the form of tangible personal  
45 property, but transfer of possession, lease and rental as used in the

1 definition of sale mean only such transactions as are found on  
2 investigation to be in lieu of sales as defined without the words lease or  
3 rental.

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

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

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

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

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

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

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

33 Sec. 10. Section 42-5070, Arizona Revised Statutes, is amended to  
34 read:

35 42-5070. Transient lodging classification; definition

36 A. The transient lodging classification is comprised of the  
37 business of operating, for occupancy by transients, a hotel or motel,  
38 including an inn, tourist home or house, dude ranch, resort, campground,  
39 studio or bachelor hotel, lodging house, rooming house, apartment house,  
40 dormitory, public or private club, mobile home or house trailer at a fixed  
41 location or other similar structure, and also including a space, lot or  
42 slab that is occupied or intended or designed for occupancy by transients  
43 in a mobile home or house trailer furnished by them for such occupancy.

44 B. The transient lodging classification does not include:

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

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

13           3. Leasing or renting four or fewer rooms of an owner-occupied  
14 residential home, together with furnishing ~~no~~ NOT more than a breakfast  
15 meal, to transient lodgers at ~~no~~ NOT more than a fifty percent average  
16 annual occupancy rate.

17           ~~4. The activities of any online lodging marketplace, as defined in~~  
18 ~~section 42-5076.~~

19           C. The tax base for the transient lodging classification is the  
20 gross proceeds of sales or gross income derived from the business, except  
21 that the tax base does not include:

22           ~~1.~~ the gross proceeds of sales or gross income derived from  
23 business activity that is properly included in another business  
24 classification under this article and that is taxable to the person  
25 engaged in that business classification, but the gross proceeds of sales  
26 or gross income to be deducted shall not exceed the consideration paid to  
27 the person conducting the activity.

28           ~~2. The gross proceeds or gross income received by an online lodging~~  
29 ~~operator, as defined in section 42-5076, from any online lodging~~  
30 ~~transactions, as defined in section 42-5076, for which the online lodging~~  
31 ~~operator has received documentation from a registered online lodging~~  
32 ~~marketplace, as defined in section 42-5076, pursuant to section 42-5009,~~  
33 ~~subsection P that the online lodging marketplace has remitted or will~~  
34 ~~remit the applicable tax to the department pursuant to section 42-5014,~~  
35 ~~subsection E.~~

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

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

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

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

5           E. The department shall separately account for revenues collected  
6 under the transient lodging classification for the purposes of section  
7 42-5029, subsection D, paragraph 4, subdivision (b).

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

12           Sec. 11. Repeal

13           Section 42-5076, Arizona Revised Statutes, is repealed.

14           Sec. 12. Section 42-5159, Arizona Revised Statutes, is amended to  
15 read:

16           42-5159. Exemptions

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

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

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

29           3. Tangible personal property, the storage, use or consumption of  
30 which the constitution or laws of the United States prohibit this state  
31 from taxing or to the extent that the rate or imposition of tax is  
32 unconstitutional under the laws of the United States.

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

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

1           6. Tangible personal property brought into this state by an  
2 individual who was a nonresident at the time the property was purchased  
3 for storage, use or consumption by the individual if the first actual use  
4 or consumption of the property was outside this state, unless the property  
5 is used in conducting a business in this state.

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

12           8. Purchases of:

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

15           (b) Livestock and poultry feed, salts, vitamins and other additives  
16 sold to persons for use or consumption in the businesses of farming,  
17 ranching and producing or feeding livestock or poultry or for use or  
18 consumption in noncommercial boarding of livestock. For the purposes of  
19 this paragraph, "poultry" includes ratites.

20           9. Propagative materials for use in commercially producing  
21 agricultural, horticultural, viticultural or floricultural crops in this  
22 state. For the purposes of this paragraph, "propagative materials":

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

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

32           10. Tangible personal property not exceeding \$200 in any one month  
33 purchased by an individual at retail outside the continental limits of the  
34 United States for the individual's own personal use and enjoyment.

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

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

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

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

45           13. Tangible personal property purchased by:

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

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

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

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

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

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

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

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

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

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

36 (h) A person that is not subject to tax under section 42-5075 and  
37 that has been provided a copy of a certificate described in section  
38 42-5009, subsection L, if the property purchased is incorporated or  
39 fabricated by the person into the real property, structure, project,  
40 development or improvement described in the certificate.

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

1 (j) A qualifying community health center as defined in section  
2 42-5001.

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

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

11 (m) For taxable periods beginning from and after June 30, 2001, a  
12 nonprofit charitable organization that has qualified under section  
13 501(c)(3) of the internal revenue code and that provides residential  
14 apartment housing for low income persons over sixty-two years of age in a  
15 facility that qualifies for a federal housing subsidy, if the tangible  
16 personal property is used by the organization solely to provide  
17 residential apartment housing for low income persons over sixty-two years  
18 of age in a facility that qualifies for a federal housing subsidy.

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

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

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

31 15. Tangible personal property sold by:

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

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

1 January 1, 2018 that were exempt from transaction privilege tax under  
2 section 42-5073.

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

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

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

17 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

43 26. Food, drink or condiment and accessory tangible personal  
44 property that are acquired for use by or provided to a school district or  
45 charter school if they are to be either served or prepared and served to

1 persons for consumption on the premises of a public school in the school  
2 district or on the premises of the charter school during school hours.

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

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

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

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

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

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

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

27 (b) Public educational institutions.

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

31 33. Natural gas or liquefied petroleum gas used to propel a motor  
32 vehicle.

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

38 35. Liquid, solid or gaseous chemicals used in manufacturing,  
39 processing, fabricating, mining, refining, metallurgical operations,  
40 research and development and, beginning on January 1, 1999, printing, if  
41 using or consuming the chemicals, alone or as part of an integrated system  
42 of chemicals, involves direct contact with the materials from which the  
43 product is produced for the purpose of causing or permitting a chemical or  
44 physical change to occur in the materials as part of the production  
45 process. This paragraph does not include chemicals that are used or

consumed in activities such as packaging, storage or transportation but does not affect any exemption for such chemicals that is otherwise provided by this section. For the purposes of this paragraph, "printing" means a commercial printing operation and includes job printing, engraving, embossing, copying and bookbinding.

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

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

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

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

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

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

40. Through December 31, 1994, tangible personal property sold pursuant to a personal property liquidation transaction, as defined in section 42-5061. From and after December 31, 1994, tangible personal property sold pursuant to a personal property liquidation transaction, as

1 defined in section 42-5061, if the gross proceeds of the sales were  
2 included in the measure of the tax imposed by article 1 of this chapter or  
3 if the personal property liquidation was a casual activity or transaction.

4 41. Wireless telecommunications equipment that is held for sale or  
5 transfer to a customer as an inducement to enter into or continue a  
6 contract for telecommunications services that are taxable under section  
7 42-5064.

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

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

19 44. Alternative fuel vehicles if the vehicle was manufactured as a  
20 diesel fuel vehicle and converted to operate on alternative fuel and  
21 equipment that is installed in a conventional diesel fuel motor vehicle to  
22 convert the vehicle to operate on an alternative fuel, as defined in  
23 section 1-215.

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

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

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

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

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

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

42 49. Prepared food, drink or condiment donated by a restaurant as  
43 classified in section 42-5074, subsection A to a nonprofit charitable  
44 organization that has qualified under section 501(c)(3) of the internal

1 revenue code and that regularly serves meals to the needy and indigent on  
2 a continuing basis at no cost.

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

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

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

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

16 52. Repair parts installed in equipment used directly by a  
17 qualified business under section 41-1516 in harvesting, processing or  
18 transporting qualifying forest products removed from qualifying projects  
19 as defined in section 41-1516.

20 53. Renewable energy credits or any other unit created to track  
21 energy derived from renewable energy resources. For the purposes of this  
22 paragraph, "renewable energy credit" means a unit created administratively  
23 by the corporation commission or governing body of a public power entity  
24 to track kilowatt hours of electricity derived from a renewable energy  
25 resource or the kilowatt hour equivalent of conventional energy resources  
26 displaced by distributed renewable energy resources.

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

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

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

40 (b) The title or possession of the coal is transferred back to the  
41 owner or operator of the power plant after completion of the coal refining  
42 process. For the purposes of this subdivision, "coal refining process"  
43 means the application of a coal additive system that aids the reduction of  
44 power plant emissions during the combustion of coal and the treatment of  
45 flue gas.

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

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

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

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

18           57. Cash equivalents, precious metal bullion and monetized bullion  
19 purchased by the ultimate consumer, but coins or other forms of money for  
20 manufacture into jewelry or works of art are subject to tax, and tangible  
21 personal property that is purchased through the redemption of any cash  
22 equivalent by the holder as a means of payment for goods that are subject  
23 to tax under this article is subject to tax. For the purposes of this  
24 paragraph:

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

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

34           (ii) Prepaid calling cards for telecommunications services.

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

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

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

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

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

14           3. Tangible personal property sold to persons engaged in business  
15 classified under the telecommunications classification under section  
16 42-5064, including a person representing or working on behalf of such a  
17 person in a manner described in section 42-5075, subsection 0, and  
18 consisting of central office switching equipment, switchboards, private  
19 branch exchange equipment, microwave radio equipment and carrier equipment  
20 including optical fiber, coaxial cable and other transmission media that  
21 are components of carrier systems.

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

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

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

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

37           (a) A person:

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

42           (ii) That is certificated or licensed under federal aviation  
43 administration regulations (14 Code of Federal Regulations part 121 or  
44 135) as a scheduled or unscheduled carrier of persons for hire for use as

1 or in conjunction with or becoming part of an aircraft to be used to  
2 transport persons for hire in intrastate, interstate or foreign commerce.

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

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

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

21 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10 (c) Any machinery or equipment purchased after the television  
11 station has ceased analog broadcasting, or purchased after November 1,  
12 2009, whichever occurs first.

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

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

25 C. The exemptions provided by subsection B of this section do not  
26 include:

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

31 2. Janitorial equipment and hand tools.

32 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

3           1. Revenues received from sales of ancillary services, electric  
4 distribution services, electric generation services, electric transmission  
5 services and other services related to providing electricity to a retail  
6 electric customer who is located outside this state for use outside this  
7 state if the electricity is delivered to a point of sale outside this  
8 state.

9           2. Revenues received from providing electricity, including  
10 ancillary services, electric distribution services, electric generation  
11 services, electric transmission services and other services related to  
12 providing electricity with respect to which the transaction privilege tax  
13 imposed under section 42-5063 has been paid.

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

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

19           1. Fees charged by a municipally owned utility to persons  
20 constructing residential, commercial or industrial developments or  
21 connecting residential, commercial or industrial developments to a  
22 municipal utility system or systems if the fees are segregated and used  
23 only for capital expansion, system enlargement or debt service of the  
24 utility system or systems.

25           2. Reimbursement or contribution compensation to any person or  
26 persons owning a utility system for property and equipment installed to  
27 provide utility access to, on or across the land of an actual utility  
28 consumer if the property and equipment become the property of the utility.  
29 This deduction shall not exceed the value of such property and equipment.

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

32           1. A qualified manufacturing or smelting business. A utility that  
33 claims this deduction shall report each month, on a form prescribed by the  
34 department, the name and address of each qualified manufacturing or  
35 smelting business for which this deduction is taken. This paragraph  
36 applies to gas transportation services. For the purposes of this  
37 paragraph:

38           (a) "Gas transportation services" means the services of  
39 transporting natural gas to a natural gas customer or to a natural gas  
40 distribution facility if the natural gas was purchased from a supplier  
41 other than the utility.

42           (b) "Manufacturing" means the performance as a business of an  
43 integrated series of operations that places tangible personal property in  
44 a form, composition or character different from that in which it was  
45 acquired and transforms it into a different product with a distinctive

1 name, character or use. Manufacturing does not include job printing,  
2 publishing, packaging, mining, generating electricity or operating a  
3 restaurant.

4 (c) "Qualified manufacturing or smelting business" means one of the  
5 following:

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

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

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

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

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

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

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

28 H. A city or town may exempt proceeds from sales of paintings,  
29 sculptures or similar works of fine art if such works of fine art are sold  
30 by the original artist. For the purposes of this subsection, fine art  
31 does not include an art creation such as jewelry, macrame, glasswork,  
32 pottery, woodwork, metalwork, furniture or clothing if the art creation  
33 has a dual purpose, both aesthetic and utilitarian, whether sold by the  
34 artist or by another person.

35 I. For the purposes of subsection B of this section:

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

39 2. "Aircraft" includes:

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

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

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

4           J. For the purposes of subsection D of this section, "ancillary  
5 services", "electric distribution service", "electric generation service",  
6 "electric transmission service" and "other services" have the same  
7 meanings prescribed in section 42-5063.

8           Sec. 13. Repeal

9           Sections 42-6009 and 42-6013, Arizona Revised Statutes, are  
10 repealed.

11          Sec. 14. Section 42-6102, Arizona Revised Statutes, is amended to  
12 read:

13          42-6102. Administration; exception

14          A. Unless the context otherwise requires, chapter 5, article 1 of  
15 this title governs the administration of the taxes imposed by this  
16 article, except that:

17           1. A separate license is not required for the taxes imposed by this  
18 article, and the taxes due under this article shall be included, reported  
19 and paid with the transaction privilege tax.

20           2. A separate bond is not required of employees of the department  
21 in administering this article.

22           3. The taxes imposed by this article may be included without  
23 segregation in any notice and lien filed for unpaid transaction privilege  
24 taxes.

25          B. The taxes imposed pursuant to this article do not apply to the  
26 gross proceeds of sales or gross income derived pursuant to contracts  
27 entered into before the date of the election to authorize the tax by prime  
28 contractors ~~and owner builders~~ who are classified under ~~sections~~ SECTION  
29 42-5075 ~~and 42-5076~~ unless the contract contains a provision ~~which~~ THAT  
30 entitles the contractor to recover the amount of the tax from a  
31 purchaser. In order to qualify for this exemption the contractor shall  
32 provide sufficient documentation, in a manner and form prescribed by the  
33 department, to verify that a contract was entered into before the date of  
34 the election to authorize the tax.

35          Sec. 15. Section 42-6108, Arizona Revised Statutes, is amended to  
36 read:

37          42-6108. Tax on hotels

38          A. The board of supervisors of a county having a population of less  
39 than two million five hundred thousand but more than five hundred thousand  
40 persons may levy and, if levied, the department shall collect a tax on the  
41 gross proceeds of sales or gross income from the business of every person  
42 engaging or continuing in the county in a business taxed under chapter 5  
43 of this title and classified under section 42-5070 ~~or 42-5076~~. The tax  
44 shall be levied under this section beginning January 1 or July 1,  
45 whichever date first occurs at least three months after the county

1 resolution approving the tax levy. The rate of tax shall not exceed six  
2 ~~per cent~~ PERCENT.

3 B. The tax only applies in unincorporated areas of the county.

4 C. At the end of each month the state treasurer shall transmit the  
5 net revenues collected pursuant to this section to the treasurer of the  
6 county levying the tax. The county shall use:

7 1. Not more than thirty-four percent of these revenues for the  
8 purposes set forth in section 48-4204, subsection A, as financial  
9 participation by the county as required by that subsection.

10 2. Not more than sixteen percent of these revenues for the purposes  
11 of economic development under section 11-254.04. Any increase in tax  
12 imposed under this section shall not constitute a new tax for the purposes  
13 of section 11-254.04, subsection B.

14 3. All remaining revenues to promote and enhance tourism through  
15 the recognized tourism promotion agency in the county.

16 Sec. 16. Section 42-6108.01, Arizona Revised Statutes, is amended  
17 to read:

18 42-6108.01. Tax on hotels

19 A. The qualified electors residing in a county having a population  
20 of less than two million but more than five hundred thousand persons, by  
21 majority vote at an election held in the county, may levy and, if levied,  
22 the department of revenue shall collect a tax on the gross proceeds of  
23 sales or gross income from the business of every person engaging or  
24 continuing in a business taxed under chapter 5 of this title and  
25 classified under section 42-5070 ~~or 42-5076~~ within the county. A tax  
26 under this section:

27 1. Is in addition to taxes imposed by chapter 5 of this title and  
28 section 42-6108 and any tax imposed by a city or town in the county.

29 2. Applies in both incorporated and unincorporated areas of the  
30 county.

31 B. If levied, the tax shall be levied under this section beginning  
32 on the first day of the first month beginning ninety days after the  
33 election to levy the tax. The tax shall be in effect for thirty years.  
34 The tax may be extended by majority vote of the qualified electors  
35 residing in the county at an election held in the county for a period of  
36 not more than ten years.

37 C. The rate of the tax is one ~~per cent~~ PERCENT of the tax base  
38 prescribed by section 42-5070 ~~or 42-5076~~.

39 D. Each month the state treasurer shall credit the net revenues  
40 collected pursuant to this section to the tourism fund established by  
41 section 41-2306.

1           Sec. 17. Section 42-12003, Arizona Revised Statutes, is amended to  
2 read:

3           42-12003. Class three property; definition

4           A. For purposes of taxation, class three is established consisting  
5 of:

6           1. Real and personal property and improvements to the property that  
7 are used as the owner's primary residence, that are not otherwise included  
8 in class one, two, four, six, seven or eight and that are valued at full  
9 cash value.

10          2. Real and personal property that is occupied by a relative of the  
11 owner, as provided by section 42-12053, and used as the relative's primary  
12 residence, that is not otherwise included in class one, two, four, six,  
13 seven or eight and that is valued at full cash value.

14          ~~3. Real and personal property that is owned and occupied as the~~  
15 ~~primary residence of the owner who also uses the property for lease or~~  
16 ~~rent to lodgers.~~

17          B. For the purposes of this section, a homesite that is included in  
18 class three may include:

19           1. Up to ten acres on a single parcel of real property on which the  
20 residential improvement is located.

21           2. More than ten, but not more than forty, acres on a single parcel  
22 of real property on which the residential improvement is located if it is  
23 zoned exclusively for residential purposes or contains legal restrictions  
24 or physical conditions that prevent the division of the parcel.

25          C. For the purposes of this section, "physical conditions" means  
26 topography, mountains, washes, rivers, roads or any other configuration  
27 that limits the residential usable land area.

28       Sec. 18. Section 42-12004, Arizona Revised Statutes, is amended to  
29 read:

30           42-12004. Class four property

31          A. For purposes of taxation, class four is established consisting  
32 of:

33           1. Real and personal property and improvements to the property that  
34 are used for residential purposes, including residential property that is  
35 owned in foreclosure by a financial institution, that is not otherwise  
36 included in another classification and that is valued at full cash value.  
37 The homesite that is included in class four may include:

38           (a) Up to ten acres on a single parcel of real property on which  
39 the residential improvement is located.

40           (b) More than ten, but not more than forty, acres on a single  
41 parcel of real property on which the residential improvement is located if  
42 it is zoned exclusively for residential purposes or contains legal  
43 restrictions or physical conditions that prevent the division of the  
44 parcel. For the purposes of this subdivision, "physical conditions" means

1 topography, mountains, washes, rivers, roads or any other configuration  
2 that limits the residential usable land area.

3 2. Real and personal property and improvements to the property that  
4 are used solely as leased or rented property for residential purposes,  
5 that are not included in class one, two, three, six, seven or eight and  
6 that are valued at full cash value.

7 3. Child care facilities that are licensed under title 36, chapter  
8 7.1 and that are valued at full cash value.

9 4. Real and personal property and improvements to property that are  
10 used to operate nonprofit residential housing facilities that are  
11 structured to house or care for persons with disabilities or who are  
12 sixty-two years of age or older and that are valued at full cash value.

13 5. Real and personal property and improvements that are used to  
14 operate licensed residential care institutions or licensed nursing care  
15 institutions that provide medical services, nursing services or ~~health~~  
16 ~~related~~ HEALTH-RELATED services and that are structured to house or care  
17 for persons with disabilities or who are sixty-two years of age or older  
18 and that are valued at full cash value.

19 6. Real and personal property consisting of ~~no~~ NOT more than eight  
20 rooms of residential property that are leased or rented to transient  
21 lodgers, together with furnishing ~~no~~ NOT more than a breakfast meal, by  
22 the owner who resides on the property and that is valued at full cash  
23 value.

24 7. Real and personal property consisting of residential dwellings  
25 that are maintained for occupancy by agricultural employees as a condition  
26 of employment or as a convenience to the employer, that is not included in  
27 class three and that is valued at full cash value. The land associated  
28 with these dwellings shall be valued as agricultural land pursuant to  
29 chapter 13, article 3 of this title.

30 8. Real property and improvements to property constituting common  
31 areas that are valued pursuant to chapter 13, article 9 of this title.

32 9. Real and personal property that is defined as timeshare property  
33 by section 32-2197 and valued pursuant to chapter 13, article 10 of this  
34 title, except for any property used for commercial, industrial or  
35 transient occupancy purposes and included in class one to the extent of  
36 that use.

37 ~~10. Real and personal property and improvements that are used for~~  
38 ~~residential purposes, that are leased or rented to lodgers, except for:~~

39 ~~(a) Property occupied by the owner of the property as the owner's~~  
40 ~~primary residence and included in class three.~~

41 ~~(b) Property used for commercial purposes and included in class~~  
42 ~~one.~~

43 B. Subsection A, paragraphs 4 and 5 of this section ~~shall not be~~  
44 ~~construed to~~ DO NOT limit eligibility for exemption from taxation under  
45 chapter 11, article 3 of this title.

1           Sec. 19. Repeal  
2           Laws 2016, chapter 208, sections 14, 15 and 16 are repealed.  
3           Sec. 20. Conditional enactment  
4           Section 42-5061, Arizona Revised Statutes, as amended by Laws 2019,  
5 chapter 273, section 8, chapter 288, section 2 and this act, becomes  
6 effective on the date prescribed by Laws 2018, chapter 263, section 5 but  
7 only on the occurrence of the condition prescribed by Laws 2018, chapter  
8 263, section 5.