CHAPTER 321

HOUSE BILL 2871

AN ACT

AMENDING SECTION 28-8335, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 1, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-1009; REPEALING SECTION 42-1009, ARIZONA REVISED STATUTES; AMENDING SECTIONS 42-5029.02 AND 42-5032.02, ARIZONA REVISED STATUTES; AMENDING TITLE 42, CHAPTER 5, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 42-5041; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 266, SECTION 3, CHAPTER 412, SECTION 7, CHAPTER 417, SECTION 4 AND CHAPTER 443, SECTION 2; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 266, SECTION 4, CHAPTER 412, SECTION 8, CHAPTER 417, SECTION 5 AND CHAPTER 443, SECTION 3; AMENDING SECTIONS 42-5071, 42-5075 AND 42-5159, ARIZONA REVISED STATUTES; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 417, SECTION 10; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 417, SECTION 11; AMENDING TITLE 43, CHAPTER 2, ARTICLE 1, ARIZONA REVISED STATUTES, BY ADDING SECTION 43-212; AMENDING SECTION 43-1014, ARIZONA REVISED STATUTES; AMENDING LAWS 2021, CHAPTER 412, SECTION 26; AMENDING LAWS 2021, CHAPTER 412, SECTION 30; APPROPRIATING MONIES; RELATING TO TAXATION.

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

Section 1. Section 28-8335, Arizona Revised Statutes, is amended to read:

28-8335. License tax; tax rate
A. An annual license tax is imposed on all aircraft based in this state and required to be registered pursuant to this article, unless an exemption for the aircraft is established pursuant to this article. The license tax is payable to the department on initial registration and annually on or before the last day of February.
B. Except as provided in sections 28-8336, through 28-8337, 28-8338, 28-8339, 28-8340 AND 28-8341, the department shall determine and assess the license tax prescribed by subsection A of this section on the basis of one-half percent of the average fair market value of the particular make, model and year of aircraft. THE AVERAGE FAIR MARKET VALUE:

1. MAY NOT HAVE AN ANNUAL PERCENTAGE CHANGE THAT IS MORE THAN THE ANNUAL PERCENTAGE CHANGE IN THE AVERAGE CONSUMER PRICE INDEX AS PUBLISHED BY THE UNITED STATES DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS.
C. The tax assessed under this subsection shall not be less than twenty dollars AT LEAST $20 for a full year of registration.

Sec. 2. Title 42, chapter 1, article 1, Arizona Revised Statutes, is amended by adding section 42-1009, to read:

42-1009. Department of revenue tax system modernization project advisory committee; membership
THE DEPARTMENT OF REVENUE TAX SYSTEM MODERNIZATION PROJECT ADVISORY COMMITTEE IS ESTABLISHED AND SHALL SERVE AS THE LIAISON BETWEEN THE DEPARTMENT AND THE USERS OF THE TAX SYSTEM. THE COMMITTEE SHALL CONSIST OF THE FOLLOWING MEMBERS:
2. THE DIRECTOR OF THE DEPARTMENT OF ADMINISTRATION OR THE DIRECTOR'S DESIGNEE.
3. THE AUDITOR GENERAL OR THE AUDITOR GENERAL'S DESIGNEE AS A NONVOTING MEMBER.
4. THE DIRECTOR OF THE JOINT LEGISLATIVE BUDGET COMMITTEE OR THE DIRECTOR'S DESIGNEE AS A NONVOTING MEMBER.
5. THE DIRECTOR OF THE GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND BUDGETING OR THE DIRECTOR'S DESIGNEE.
6. ONE MEMBER WHO REPRESENTS A CITY OR TOWN IN THIS STATE. THE DIRECTOR OF THE DEPARTMENT OF REVENUE SHALL APPOINT THIS MEMBER.
7. ONE MEMBER WHO REPRESENTS A COUNTY IN THIS STATE. THE DIRECTOR OF THE DEPARTMENT OF REVENUE SHALL APPOINT THIS MEMBER.
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8. ONE MEMBER WHO REPRESENTS THE BUSINESS COMMUNITY IN THIS STATE.

9. ONE MEMBER WHO IS APPOINTED BY THE PRESIDENT OF THE SENATE.

10. ONE MEMBER WHO IS APPOINTED BY THE SPEAKER OF THE HOUSE OF REPRESENTATIVES.

Sec. 3. Repeal

Section 42-1009, Arizona Revised Statutes, as added by this act, is repealed from and after December 31, 2029.

Sec. 4. Section 42-5029.02, Arizona Revised Statutes, is amended to read:

42-5029.02. Distribution of revenues for education;
definitions

A. All monies collected pursuant to section 42-5010.01 and section 42-5155, subsection E shall be distributed each fiscal year pursuant to this subsection. The monies distributed pursuant to this subsection are in addition to any other appropriation, transfer or other allocation of public or private monies from any other source and may not supplant, replace or cause a reduction in other school district, charter school, university or community college funding sources. The monies shall be distributed as follows:

1. $64,100,000 is appropriated each fiscal year, to be paid in monthly installments, to the superintendent of public instruction for basic state aid.

2. After any transfer of monies pursuant to paragraph 1 of this subsection, twelve percent of the remaining monies collected during the preceding month shall be transferred to the technology and research initiative fund established by section 15-1648 to be distributed among the universities under the jurisdiction of the Arizona board of regents for the purpose of investment in technology and research-based initiatives.

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

4. After the transfer of monies pursuant to paragraphs 1, 2 and 3 of this subsection, one-twelfth of the amount a community college that is owned, operated or chartered by a qualifying Indian tribe on its own Indian reservation would receive pursuant to section 15-1472, subsection D, paragraph 2 if it were a community college district shall be distributed each month to the treasurer or other designated depository of the qualifying Indian tribe. Monies distributed pursuant to this paragraph are for the exclusive purpose of providing support to one or more community colleges that are owned, operated or chartered by a qualifying Indian tribe and shall be used in a manner consistent with section 15-1472, subsection B.
5. After the transfer of monies pursuant to paragraphs 1, 2 and 3 of this subsection, one-twelfth of $86,280,500 shall be transferred each month to the department of education for the increased cost of basic state aid under section 15-971 due to added school days and associated teacher salary increases that were enacted in 2000.

6. After the transfer of monies pursuant to paragraphs 1, 2 and 3 of this subsection, $7,800,000 is appropriated each fiscal year, to be paid in monthly installments, to the department of education to be used for school safety as provided in section 15-154 and $200,000 is appropriated each fiscal year, to be paid in monthly installments, to the department of education to be used for the character education matching grant program as provided in section 15-154.01.

7. After the transfer of monies pursuant to paragraphs 1, 2 and 3 of this subsection, the legislature may not appropriate more than $7,000,000 each fiscal year to the department of education to be used for accountability purposes as described in section 15-241.02 and title 15, chapter 9, article 8.

8. After the transfer of monies pursuant to paragraphs 1, 2 and 3 of this subsection, $1,500,000 is appropriated each fiscal year, to be paid in monthly installments, to the failing schools tutoring fund established by section 15-241.

9. After the transfer of monies pursuant to paragraphs 1, 2 and 3 of this subsection, $25,000,000 shall be transferred each fiscal year to the state general fund to reimburse the state general fund for the cost of the income tax credit allowed by section 43-1072.02.

10. From and after June 30, 2022 through June 30, 2028, after the transfer of monies pursuant to paragraphs 1 through 9 of this subsection, an amount determined by the director pursuant to section 42-5041 to the department of revenue integrated tax system project fund established by section 42-5041.

11. After the transfer of monies pursuant to paragraphs 1 through 9 of this subsection, the remaining monies collected during the preceding month shall be transferred to the classroom site fund established by section 15-977. The monies shall be allocated in the manner prescribed by section 15-977.

B. For the purposes of this section:
1. "Community college district" means a community college district that is established pursuant to sections 15-1402 and 15-1403 and that is a political subdivision of this state and, unless otherwise specified, includes a community college tuition financing district established pursuant to section 15-1409.
2. "Qualifying Indian tribe" has the same meaning as defined in section 42-5031.01.
Sec. 5. Section 42-5032.02, Arizona Revised Statutes, is amended to read:

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

A. Subject to subsection B of this section, from and after September 30, 2013 through September 30, 2033, each month the state treasurer shall pay a city, town or county the amount determined under subsection C of this section for the purpose of funding up to eighty percent of the cost of public infrastructure improvements for the benefit of a manufacturing facility.

B. The state treasurer shall not make any payments under subsection C of this section until both of the following apply:
   1. Ten percent of the qualifying capital investment that is certified under subsection D of this section and that constitutes construction phase services, as defined in section 42-5075, has been made by the manufacturing facility.
   2. From and after June 30, 2014.

C. The amount to be paid to a city, town or county under subsection A of this section is the total amount of state transaction privilege tax revenues collected under section 42-5010, subsection A from persons conducting business under section 42-5075 derived from contracts to construct buildings and associated improvements for the benefit of a manufacturing facility. The total amount paid to all cities, towns and counties under this subsection shall not exceed a maximum of $50,000,000.

D. Within one hundred eighty days after the commencement of the construction of buildings and associated improvements for the benefit of a manufacturing facility that will require a city, town or county to make infrastructure improvements, the manufacturing facility shall file a sworn certification with the Arizona commerce authority and submit a copy of this sworn certification to the applicable city, town or county that the manufacturing facility agrees to either:
   1. Make at least $500,000,000 in capital investment if the manufacturing facility is located in a county that has a population of eight hundred thousand persons or more.
   2. Make at least $50,000,000 in capital investment if the manufacturing facility is located in a county that has a population of less than eight hundred thousand persons.

E. The certification under subsection D of this section shall contain a sworn statement or certification, signed by an officer of the manufacturing facility under penalty of perjury, that the information contained is true and correct according to the best belief and knowledge of the person submitting the information after a reasonable investigation of the facts.
F. Before submitting the certification to the Arizona commerce authority, the manufacturing facility and the city, town or county must enter into a written agreement that:

1. Identifies and states the cost of the public infrastructure improvements that will be constructed.

2. Identifies the sources of monies, including monies received pursuant to this section, that will be used to pay for the public infrastructure improvements.

G. On receipt of the sworn certification from a manufacturing facility pursuant to subsection D of this section, the city, town or county shall enter into a written agreement with the department. This agreement and any amendments or changes to the agreement shall:

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

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

3. State that the city, town or county will commit all of its portion of the revenue received pursuant to section 42-5029, subsection D derived from contracts subject to section 42-5075 to construct buildings and associated improvements for the benefit of the manufacturing facility for public infrastructure improvements that benefit the manufacturing facility.

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

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

6. Identify the persons who will be prime contractors on the construction of buildings and associated improvements for the benefit of a manufacturing facility and state that each prime contractor has been notified as to which portion of the contractor's income shall be separately identified to the department pursuant to section 42-5075, subsection H.

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

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

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

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

1. The city, town or county has received monies that meet or exceed eighty percent of the cost of the public infrastructure improvements that are necessary to support the activities related to the manufacturing facility as described in the written agreement pursuant to subsection G of this section.

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

I. For the purposes of this section:

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

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

3. "Manufacturing facility":
   (a) Means an establishment that is engaged in the mechanical, physical or chemical transformation or fabrication of materials, substances or components into new products in this state, that is classified within sections 31 through 33 inclusive of the 2007 edition of the North American industry classification system as published by the national technical information service of the United States department of commerce and that agrees to either:
      (i) Make at least $500,000,000 in capital investment if the manufacturing facility is located in a county that has a population of eight hundred thousand persons or more.
(ii) Make at least $50,000,000 in capital investment if the manufacturing facility is located in a county that has a population of less than eight hundred thousand persons.

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

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

5. "Public infrastructure" means water production, delivery and disposal facilities, wastewater production, delivery and disposal facilities and roads that are necessary to support the activities of the manufacturing facility.

Sec. 6. Title 42, chapter 5, article 1, Arizona Revised Statutes, is amended by adding section 42-5041, to read:

42-5041. Assessment of fees; integrated tax system modernization project; fund

A. FROM AND AFTER JUNE 30, 2022 THROUGH JUNE 30, 2028, THE DEPARTMENT SHALL ASSESS AND COLLECT FEES FROM COUNTIES, CITIES, TOWNS, COUNCILS OF GOVERNMENTS AND REGIONAL TRANSPORTATION AUTHORITIES AS DETERMINED BY THE DIRECTOR AND AS PROVIDED BY THIS SECTION TO IMPLEMENT AN INTEGRATED TAX SYSTEM MODERNIZATION PROJECT AT THE DEPARTMENT.

B. FROM AND AFTER JUNE 30, 2022 THROUGH JUNE 30, 2028, A FEE IS ASSESSED TO EACH COUNTY, CITY AND TOWN THAT RECEIVES STATE SHARED REVENUES PURSUANT TO SECTION 42-5029 OR 43-206, TO EACH COUNCIL OF GOVERNMENTS THAT RECEIVES REVENUES PURSUANT TO SECTION 42-6105 AND TO EACH REGIONAL TRANSPORTATION AUTHORITY LOCATED IN A COUNTY WITH A POPULATION OF MORE THAN EIGHT HUNDRED THOUSAND PERSONS THAT RECEIVES REVENUES PURSUANT TO SECTION 42-6106.

C. THE DEPARTMENT SHALL ASSESS THE FEES UNDER SUBSECTION A AND B OF THIS SECTION NOT LATER THAN OCTOBER 31 EACH YEAR, AND THE FEES ARE PAYABLE IMMEDIATELY ON ASSESSMENT. IF A COUNTY, CITY, TOWN, COUNCIL OF GOVERNMENTS OR REGIONAL TRANSPORTATION AUTHORITY FAILS TO PAY THE FEES IN FULL ON OR BEFORE DECEMBER 31, THE DEPARTMENT SHALL NOTIFY THE STATE TREASURER WHO SHALL WITHHOLD THE DELINQUENT AMOUNT FROM THE DISTRIBUTION OF MONIES TO THE AFFECTED COUNTY, CITY OR TOWN PURSUANT TO SECTIONS 42-5029 AND 43-206, FROM THE DISTRIBUTION OF MONIES TO THE AFFECTED COUNCIL OF GOVERNMENTS PURSUANT TO SECTION 42-6105 AND FROM THE DISTRIBUTION OF MONIES TO THE AFFECTED REGIONAL TRANSPORTATION AUTHORITY PURSUANT TO SECTION 42-6106, AND WHO SHALL CONTINUE TO WITHHOLD MONIES UNTIL THE ENTIRE AMOUNT OF THE ASSESSMENT HAS BEEN SATISFIED.

D. COUNTIES, CITIES AND TOWNS MAY MEET THEIR COST SHARING OBLIGATION FROM ANY SOURCE OF COUNTY, CITY OR TOWN REVENUE DESIGNATED BY THE APPROPRIATE COUNTY, CITY OR TOWN. THE COUNTY SOURCES MAY INCLUDE MONIES OF ANY COUNTYWIDE SPECIAL TAXING JURISDICTION IN WHICH THE BOARD OF SUPERVISORS SERVES AS THE BOARD OF DIRECTORS.
E. FROM AND AFTER JUNE 30, 2022 THROUGH JUNE 30, 2028, PURSUANT TO SECTION 42-5029.02, THE DEPARTMENT SHALL TRANSFER AN AMOUNT FROM MONIES COLLECTED PURSUANT TO SECTION 42-5010.01 AND SECTION 42-5155, SUBSECTION E AS DETERMINED BY THE DIRECTOR TO IMPLEMENT THE INTEGRATED TAX SYSTEM MODERNIZATION PROJECT AT THE DEPARTMENT. THE AMOUNT TRANSFERRED PURSUANT TO THIS SUBSECTION SHALL BE THE ACTUAL REASONABLE COSTS INCURRED BY THE DEPARTMENT FOR INTEGRATED TAX SYSTEM MODERNIZATION UPGRADES RELATED TO THE TAXES AUTHORIZED AND LEVIED PURSUANT TO SECTION 42-5010.01 AND SECTION 42-5155, SUBSECTION E.

F. FROM AND AFTER JUNE 30, 2022 THROUGH JUNE 30, 2028, PURSUANT TO SECTION 36-2856, SUBSECTION B, PARAGRAPH 2, THE STATE TREASURER SHALL TRANSFER AN AMOUNT FROM MONIES COLLECTED PURSUANT TO SECTION 42-5452 AS DETERMINED BY THE DIRECTOR TO IMPLEMENT THE INTEGRATED TAX SYSTEM MODERNIZATION PROJECT AT THE DEPARTMENT. THE AMOUNT TRANSFERRED PURSUANT TO THIS SUBSECTION SHALL BE THE ACTUAL REASONABLE COSTS INCURRED BY THE DEPARTMENT FOR INTEGRATED TAX SYSTEM MODERNIZATION UPGRADES RELATED TO THE TAX AUTHORIZED AND LEVIED BY SECTION 42-5452.

G. ALL MONIES PAID TO THE DEPARTMENT OR WITHHELD BY THE STATE TREASURER FOR THE FEES ASSESSED PURSUANT TO SUBSECTION B OF THIS SECTION OR TRANSFERRED PURSUANT TO SUBSECTIONS E AND F OF THIS SECTION SHALL BE CREDITED TO THE DEPARTMENT OF REVENUE INTEGRATED TAX SYSTEM PROJECT FUND ESTABLISHED BY SUBSECTION H OF THIS SECTION.

H. THE DEPARTMENT OF REVENUE INTEGRATED TAX SYSTEM PROJECT FUND IS ESTABLISHED CONSISTING OF MONIES DEPOSITED OR TRANSFERRED TO THE FUND PURSUANT TO THIS SECTION. THE DIRECTOR SHALL ADMINISTER THE FUND. MONIES IN THE FUND ARE SUBJECT TO LEGISLATIVE APPROPRIATION. THE DIRECTOR SHALL USE MONIES IN THE FUND SOLELY FOR THE ADMINISTRATIVE, DEVELOPMENT AND OTHER OPERATING COSTS INCURRED IN IMPLEMENTING THE INTEGRATED TAX SYSTEM MODERNIZATION PROJECT AT THE DEPARTMENT.

Sec. 7. Section 42-5061, Arizona Revised Statutes, as amended by Laws 2021, chapter 266, section 3, chapter 412, section 7, chapter 417, section 4 and chapter 443, section 2, is amended to read:

42-5061.  Retail classification; definitions

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

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

2. Services rendered in addition to selling tangible personal property at retail.
3. Sales of warranty or service contracts. The storage, use or consumption of tangible personal property provided under the conditions of such contracts is subject to tax under section 42-5156.

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

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

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

7. The sale of stocks and bonds.

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

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

10. Insulin, insulin syringes and glucose test strips.

11. Prescription eyeglasses or contact lenses.

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

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

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

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

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

17. Textbooks by any bookstore that are required by any state university or community college.
18. Food and drink to a person that is engaged in a business that is classified under the restaurant classification and that provides such food and drink without monetary charge to its employees for their own consumption on the premises during the employees' hours of employment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

28. The sale of a motor vehicle to a nonresident of this state if the purchaser's state of residence does not allow a corresponding use tax exemption to the tax imposed by article 1 of this chapter and if the nonresident has secured a special ninety day nonresident registration permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01.

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

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

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

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

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

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

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

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

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

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

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

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

39. Through December 31, 1994, personal property liquidation transactions, conducted by a personal property liquidator. From and after December 31, 1994, personal property liquidation transactions shall be taxable under this section provided that nothing in this subsection shall be construed to authorize the taxation of casual activities or transactions under this chapter. For the purposes of this paragraph:
(a) "Personal property liquidation transaction" means a sale of personal property made by a personal property liquidator acting solely on behalf of the owner of the personal property sold at the dwelling of the owner or on the death of any owner, on behalf of the surviving spouse, if any, any devisee or heir or the personal representative of the estate of the deceased, if one has been appointed.
(b) "Personal property liquidator" means a person who is retained to conduct a sale in a personal property liquidation transaction.

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

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

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

43. Sales of implants used as growth promotants and injectable medicines, not already exempt under paragraph 8 of this subsection, for livestock or poultry owned by or in possession of persons that are engaged in producing livestock, poultry, or livestock or poultry products or that are engaged in feeding livestock or poultry commercially. For the purposes of this paragraph, "poultry" includes ratites.
44. Sales of motor vehicles at auction to nonresidents of this state for use outside this state if the vehicles are shipped or delivered out of this state, regardless of where title to the motor vehicles passes or its free on board point.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Machinery and equipment used directly for energy storage for later electrical use. For the purposes of this paragraph:

(a) "Electric utility scale" means a person that is engaged in a business activity described in section 42-5063, subsection A or such person's equipment or wholesale electricity suppliers.

(b) "Energy storage" means commercially available technology for electric utility scale that is capable of absorbing energy, storing energy for a period of time and thereafter dispatching the energy and that uses mechanical, chemical or thermal processes to store energy.
(c) "Machinery and equipment used directly" means all machinery and equipment that are used for electric energy storage from the point of receipt of such energy in order to facilitate storage of the electric energy to the point where the electric energy is released.

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

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

8. Aircraft, navigational and communication instruments and other accessories and related equipment sold to:
   (a) A person:
      (i) Holding, or exempted by federal law from obtaining, a federal certificate of public convenience and necessity for use as, in conjunction with or becoming part of an aircraft to be used to transport persons for hire in intrastate, interstate or foreign commerce.
      (ii) That is certificated or licensed under federal aviation administration regulations (14 Code of Federal Regulations part 121 or 135) as a scheduled or unscheduled carrier of persons for hire for use as or in conjunction with or becoming part of an aircraft to be used to transport persons for hire in intrastate, interstate or foreign commerce.
      (iii) Holding a foreign air carrier permit for air transportation for use as or in conjunction with or becoming a part of aircraft to be used to transport persons, property or United States mail in intrastate, interstate or foreign commerce.
      (iv) Operating an aircraft to transport persons in any manner for compensation or hire, or for use in a fractional ownership program that meets the requirements of federal aviation administration regulations (14 Code of Federal Regulations part 91, subpart K), including as an air carrier, a foreign air carrier or a commercial operator or under a restricted category, within the meaning of 14 Code of Federal Regulations, regardless of whether the operation or aircraft is regulated or certified under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code of Federal Regulations.
      (v) That will lease or otherwise transfer operational control, within the meaning of federal aviation administration operations specification A008, or its successor, of the aircraft, instruments or accessories to one or more persons described in item (i), (ii), (iii) or (iv) of this subdivision, subject to section 42-5009, subsection Q.
   (b) Any foreign government.
   (c) Persons who are not residents of this state and who will not use such property in this state other than in removing such property from
this state. This subdivision also applies to corporations that are not incorporated in this state, regardless of maintaining a place of business in this state, if the principal corporate office is located outside this state and the property will not be used in this state other than in removing the property from this state.

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

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

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

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


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

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

(a) "OFF-HIGHWAY VEHICLES" MEANS OFF-HIGHWAY VEHICLES AS DEFINED IN SECTION 28-1171 THAT ARE MODIFIED AT THE TIME OF SALE TO FUNCTION AS A TRACTOR OR TO TOW TRACTOR-DRAWN IMPLEMENTS AND THAT ARE NOT EQUIPPED WITH A MODIFIED EXHAUST SYSTEM TO INCREASE HORSEPOWER OR SPEED OR AN ENGINE THAT IS MORE THAN ONE THOUSAND CUBIC CENTIMETERS OR THAT HAVE A MAXIMUM SPEED OF FIFTY MILES PER HOUR OR LESS.

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

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

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

17. Clean rooms that are used for manufacturing, processing,
fabrication or research and development, as defined in paragraph 15 of
this subsection, of semiconductor products. For the purposes of this
paragraph, "clean room" means all property that comprises or creates an
environment where humidity, temperature, particulate matter and
contamination are precisely controlled within specified parameters,
without regard to whether the property is actually contained within that
environment or whether any of the property is affixed to or incorporated
into real property. Clean room:
(a) Includes the integrated systems, fixtures, piping, movable
partitions, lighting and all property that is necessary or adapted to
reduce contamination or to control airflow, temperature, humidity,
chemical purity or other environmental conditions or manufacturing
tolerances, as well as the production machinery and equipment operating in
conjunction with the clean room environment.
(b) Does not include the building or other permanent, nonremovable
cOMPONENT OF THE BUILDING THAT HOUSES THE CLEAN ROOM ENVIRONMENT.
18. Machinery and equipment used directly in feeding poultry,
Environmentally controlling housing for poultry, moving eggs within a
production and packaging facility or sorting or cooling eggs. This
exemption does not apply to vehicles used for transporting eggs.
19. Machinery or equipment, including related structural components
and containment structures, that is employed in connection with
manufacturing, processing, fabricating, job printing, refining, mining,
natural gas pipelines, metallurgical operations, telecommunications,
producing or transmitting electricity or research and development and that
is used directly to meet or exceed rules or regulations adopted by the
Federal energy regulatory commission, the United States environmental
protection agency, the United States nuclear regulatory commission, the
Arizona department of environmental quality or a political subdivision of
this state to prevent, monitor, control or reduce land, water or air
pollution. FOR THE PURPOSES OF THIS PARAGRAPH, "CONTAINMENT STRUCTURE"
MEANS A STRUCTURE THAT PREVENTS, MONITORS, CONTROLS OR REDUCES NOXIOUS OR
HARMFUL DISCHARGE INTO THE ENVIRONMENT.
20. Machinery and equipment that are sold to a person engaged in
commercially producing livestock, livestock products or agricultural,
horticultural, viticultural or floricultural crops or products in this
state, including a person representing or working on behalf of such a
person in a manner described in section 42-5075, subsection O, if the
machinery and equipment are used directly and primarily to prevent,
monitor, control or reduce air, water or land pollution.
21. Machinery or equipment that enables a television station to
originate and broadcast or to receive and broadcast digital television
signals and that was purchased to facilitate compliance with the
telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United
States Code section 336) and the federal communications commission order
issued April 21, 1997 (47 Code of Federal Regulations part 73). This
paragraph does not exempt any of the following:
(a) Repair or replacement parts purchased for the machinery or
equipment described in this paragraph.
(b) Machinery or equipment purchased to replace machinery or
equipment for which an exemption was previously claimed and taken under
this paragraph.
(c) Any machinery or equipment purchased after the television
station has ceased analog broadcasting, or purchased after November 1,
2009, whichever occurs first.
22. Qualifying equipment that is purchased from and after June 30,
2004 through June 30, 2024 by a qualified business under section 41-1516
for harvesting or processing qualifying forest products removed from qualifying projects as defined in section 41-1516. To qualify for this deduction, the qualified business at the time of purchase must present its certification approved by the department.

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

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

1. Expendable materials. For the purposes of this paragraph, expendable materials do not include any of the categories of tangible personal property specified in subsection B of this section regardless of the cost or useful life of that property.
2. Janitorial equipment and hand tools.
3. Office equipment, furniture and supplies.
4. Tangible personal property used in selling or distributing activities, other than the telecommunications transmissions described in subsection B, paragraph 16 of this section.
5. Motor vehicles required to be licensed by this state, except buses or other urban mass transit vehicles specifically exempted pursuant to subsection B, paragraph 12 of this section, without regard to the use of such motor vehicles.
6. Shops, buildings, docks, depots and all other materials of whatever kind or character not specifically included as exempt.
7. Motors and pumps used in drip irrigation systems.
8. Machinery and equipment or other tangible personal property used by a contractor in performing a contract.

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

E. In computing the tax base, gross proceeds of sales or gross income from retail sales of heavy trucks and trailers does not include any amount attributable to federal excise taxes imposed by 26 United States Code section 4051.
F. If a person is engaged in an occupation or business to which subsection A of this section applies, the person's books shall be kept so as to show separately the gross proceeds of sales of tangible personal property and the gross income from sales of services, and if not so kept the tax shall be imposed on the total of the person's gross proceeds of sales of tangible personal property and gross income from services.

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

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

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

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

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

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

2. Sales made directly to a manufacturer, modifier, assembler or repairer if such sales are of any ingredient or component part of products sold directly to the United States government or its departments or agencies by the manufacturer, modifier, assembler or repairer.
3. Overhead materials or other tangible personal property that is used in performing a contract between the United States government and a manufacturer, modifier, assembler or repairer, including property used in performing a subcontract with a government contractor who is a manufacturer, modifier, assembler or repairer, to which title passes to the government under the terms of the contract or subcontract.

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

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

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

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

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

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

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

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

O. For the purposes of this section, a sale of wireless telecommunications equipment to a person who holds the equipment for sale or transfer to a customer as an inducement to enter into or continue a contract for telecommunications services that are taxable under section 42-5064 is considered to be a sale for resale in the regular course of business.
P. Retail sales of prepaid calling cards or prepaid authorization numbers for telecommunications services, including sales of reauthorization of a prepaid card or authorization number, are subject to tax under this section.

Q. For the purposes of this section, the diversion of gas from a pipeline by a person engaged in the business of:
   1. Operating a natural or artificial gas pipeline, for the sole purpose of fueling compressor equipment to pressurize the pipeline, is not a sale of the gas to the operator of the pipeline.
   2. Converting natural gas into liquefied natural gas, for the sole purpose of fueling compressor equipment used in the conversion process, is not a sale of gas to the operator of the compressor equipment.

R. For the purposes of this section, the transfer of title or possession of coal from an owner or operator of a power plant to a person in the business of refining coal is not a sale of coal if both of the following apply:
   1. The transfer of title or possession of the coal is for the purpose of refining the coal.
   2. The title or possession of the coal is transferred back to the owner or operator of the power plant after completion of the coal refining process. For the purposes of this paragraph, “coal refining process” means the application of a coal additive system that aids in the reduction of power plant emissions during the combustion of coal and the treatment of flue gas.

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

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

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

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

W. For the purposes of subsection I of this section:
1. "Assembler" means a person who unites or combines products, wares or articles of manufacture so as to produce a change in form or substance without changing or altering the component parts.
2. "Manufacturer" means a person who is principally engaged in fabricating, producing or manufacturing products, wares or articles for use from raw or prepared materials, imparting to those materials new forms, qualities, properties and combinations.
3. "Modifier" means a person who reworks, changes or adds to products, wares or articles of manufacture.

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

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

6. "Subcontract" means an agreement between a contractor and any person who is not an employee of the contractor for furnishing supplies or services that, in whole or in part, are necessary to perform 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 performing the subcontract to pass to the government or that includes provisions incorporating such title passing clauses in a government contract into the subcontract.

Sec. 8. Section 42-5061, Arizona Revised Statutes, as amended by Laws 2021, chapter 266, section 4, chapter 412, section 8, chapter 417, section 5 and chapter 443, section 3, is amended to read:

42-5061. Retail classification; definitions

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

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

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

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

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

5. Sales to persons engaged in business classified under the restaurant classification of articles used by human beings for food, drink or condiment, whether simple, mixed or compounded.
6. Business activity that is properly included in any other business classification that is taxable under this article.

7. The sale of stocks and bonds.

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

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

10. Insulin, insulin syringes and glucose test strips.

11. Prescription eyeglasses or contact lenses.

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

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

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

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

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

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

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

19. Articles of food, drink or condiment and accessory tangible personal property to a school district or charter school if such articles and accessory tangible personal property are to be prepared and served to persons for consumption on the premises of a public school within the district or on the premises of the charter school during school hours.
20. Lottery tickets or shares pursuant to title 5, chapter 5.1, article 1.

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

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

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

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

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

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

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

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

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

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

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

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

28. The sale of a motor vehicle to a nonresident of this state if the purchaser’s state of residence does not allow a corresponding use tax exemption to the tax imposed by article 1 of this chapter and if the nonresident has secured a special ninety day nonresident registration permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01.

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

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

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

32. Sales of tangible personal property by a nonprofit organization that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the organization sponsors or operates a rodeo featuring primarily farm and ranch animals and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.
33. Sales of propagative materials to persons who use those items to commercially produce agricultural, horticultural, viticultural or floricultural crops in this state. For the purposes of this paragraph, "propagative materials":

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

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

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

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

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

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

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

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

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

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

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

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

42. Sales of:

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

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

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

44. Sales of motor vehicles at auction to nonresidents of this state for use outside this state if the vehicles are shipped or delivered out of this state, regardless of where title to the motor vehicles passes or its free on board point.
45. Tangible personal property sold to a person engaged in business and subject to tax under the transient lodging classification if the tangible personal property is a personal hygiene item or articles used by human beings for food, drink or condiment, except alcoholic beverages, that are furnished without additional charge to and intended to be consumed by the transient during the transient's occupancy.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5. Machinery and equipment used directly for energy storage for later electrical use. For the purposes of this paragraph:

   (a) "Electric utility scale" means a person that is engaged in a business activity described in section 42-5063, subsection A or such person's equipment or wholesale electricity suppliers.

   (b) "Energy storage" means commercially available technology for electric utility scale that is capable of absorbing energy, storing energy for a period of time and thereafter dispatching the energy and that uses mechanical, chemical or thermal processes to store energy.
(c) "Machinery and equipment used directly" means all machinery and equipment that are used for electric energy storage from the point of receipt of such energy in order to facilitate storage of the electric energy to the point where the electric energy is released.

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

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

8. Aircraft, navigational and communication instruments and other accessories and related equipment sold to:
   (a) A person:
      (i) Holding, or exempted by federal law from obtaining, a federal certificate of public convenience and necessity for use as, in conjunction with or becoming part of an aircraft to be used to transport persons for hire in intrastate, interstate or foreign commerce.
      (ii) That is certificated or licensed under federal aviation administration regulations (14 Code of Federal Regulations part 121 or 135) as a scheduled or unscheduled carrier of persons for hire for use as or in conjunction with or becoming part of an aircraft to be used to transport persons for hire in intrastate, interstate or foreign commerce.
      (iii) Holding a foreign air carrier permit for air transportation for use as or in conjunction with or becoming a part of aircraft to be used to transport persons, property or United States mail in intrastate, interstate or foreign commerce.
      (iv) Operating an aircraft to transport persons in any manner for compensation or hire, or for use in a fractional ownership program that meets the requirements of federal aviation administration regulations (14 Code of Federal Regulations part 91, subpart K), including as an air carrier, a foreign air carrier or a commercial operator or under a restricted category, within the meaning of 14 Code of Federal Regulations, regardless of whether the operation or aircraft is regulated or certified under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code of Federal Regulations.
      (v) That will lease or otherwise transfer operational control, within the meaning of federal aviation administration operations specification A008, or its successor, of the aircraft, instruments or accessories to one or more persons described in item (i), (ii), (iii) or (iv) of this subdivision, subject to section 42-5009, subsection Q.
   (b) Any foreign government.
(c) Persons who are not residents of this state and who will not use such property in this state other than in removing such property from this state. This subdivision also applies to corporations that are not incorporated in this state, regardless of maintaining a place of business in this state, if the principal corporate office is located outside this state and the property will not be used in this state other than in removing the property from this state.

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

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

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

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


14. New Machinery and equipment consisting of agricultural aircraft, tractors, OFF-HIGHWAY VEHICLES, tractor-drawn implements, self-powered implements, machinery and equipment necessary for extracting milk, and machinery and equipment necessary for cooling milk and livestock, and drip irrigation lines not already exempt under paragraph 7 of this subsection and that are used for commercial production of agricultural, horticultural, viticultural and floricultural crops and products in this state. For the purposes of this paragraph:

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

(a) "OFF-HIGHWAY VEHICLES" MEANS OFF-HIGHWAY VEHICLES AS DEFINED IN SECTION 28-1171 THAT ARE MODIFIED AT THE TIME OF SALE TO FUNCTION AS A TRACTOR OR TO TOW TRACTOR-DRAWN IMPLEMENTS AND THAT ARE NOT EQUIPPED WITH A MODIFIED EXHAUST SYSTEM TO INCREASE HORSEPOWER OR SPEED OR AN ENGINE THAT IS MORE THAN ONE THOUSAND CUBIC CENTIMETERS OR THAT HAVE A MAXIMUM SPEED OF FIFTY MILES PER HOUR OR LESS.

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

16. Tangible personal property that is used by either of the following to receive, store, convert, produce, generate, decode, encode, control or transmit telecommunications information:
   (a) Any direct broadcast satellite television or data transmission service that operates pursuant to 47 Code of Federal Regulations part 25.
   (b) Any satellite television or data transmission facility, if both of the following conditions are met:
      (i) Over two-thirds of the transmissions, measured in megabytes, transmitted by the facility during the test period were transmitted to or on behalf of one or more direct broadcast satellite television or data transmission services that operate pursuant to 47 Code of Federal Regulations part 25.
      (ii) Over two-thirds of the transmissions, measured in megabytes, transmitted by or on behalf of those direct broadcast television or data transmission services during the test period were transmitted by the facility to or on behalf of those services.

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

17. Clean rooms that are used for manufacturing, processing, fabrication or research and development, as defined in paragraph 15 of this subsection, of semiconductor products. For the purposes of this paragraph, "clean room" means all property that comprises or creates an environment where humidity, temperature, particulate matter and contamination are precisely controlled within specified parameters, without regard to whether the property is actually contained within that environment or whether any of the property is affixed to or incorporated into real property. Clean room:
   (a) Includes the integrated systems, fixtures, piping, movable partitions, lighting and all property that is necessary or adapted to
reduce contamination or to control airflow, temperature, humidity, chemical purity or other environmental conditions or manufacturing tolerances, as well as the production machinery and equipment operating in conjunction with the clean room environment.

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

18. Machinery and equipment used directly in feeding poultry, environmentally controlling housing for poultry, moving eggs within a production and packaging facility or sorting or cooling eggs. This exemption does not apply to vehicles used for transporting eggs.

19. Machinery or equipment, including related structural components and containment structures, that is employed in connection with manufacturing, processing, fabricating, job printing, refining, mining, natural gas pipelines, metallurgical operations, telecommunications, producing or transmitting electricity or research and development and that is used directly to meet or exceed rules or regulations adopted by the federal energy regulatory commission, the United States environmental protection agency, the United States nuclear regulatory commission, the Arizona department of environmental quality or a political subdivision of this state to prevent, monitor, control or reduce land, water or air pollution. FOR THE PURPOSES OF THIS PARAGRAPH, "CONTAINMENT STRUCTURE" MEANS A STRUCTURE THAT PREVENTS, MONITORS, CONTROLS OR REDUCES NOXIOUS OR HARMFUL DISCHARGE INTO THE ENVIRONMENT.

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

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

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

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

(c) Any machinery or equipment purchased after the television station has ceased analog broadcasting, or purchased after November 1, 2009, whichever occurs first.
22. Qualifying equipment that is purchased from and after June 30, 2004 through June 30, 2024 by a qualified business under section 41-1516 for harvesting or processing qualifying forest products removed from qualifying projects as defined in section 41-1516. To qualify for this deduction, the qualified business at the time of purchase must present its certification approved by the department.

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

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

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

2. Janitorial equipment and hand tools.

3. Office equipment, furniture and supplies.

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

5. Motor vehicles required to be licensed by this state, except buses or other urban mass transit vehicles specifically exempted pursuant to subsection B, paragraph 12 of this section, without regard to the use of such motor vehicles.

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

7. Motors and pumps used in drip irrigation systems.

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

D. In addition to the deductions from the tax base prescribed by subsection A of this section, there shall be deducted from the tax base the gross proceeds of sales or gross income derived from sales of machinery, equipment, materials and other tangible personal property used directly and predominantly to construct a qualified environmental technology manufacturing, producing or processing facility as described in section 41-1514.02. This subsection applies for ten full consecutive calendar or fiscal years after the start of initial construction.
E. In computing the tax base, gross proceeds of sales or gross income from retail sales of heavy trucks and trailers does not include any amount attributable to federal excise taxes imposed by 26 United States Code section 4051.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6. "Subcontract" means an agreement between a contractor and any person who is not an employee of the contractor for furnishing supplies or services that, in whole or in part, are necessary to perform 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 performing the subcontract to pass to the government or that includes provisions incorporating such title passing clauses in a government contract into the subcontract.

Sec. 9. Section 42-5071, Arizona Revised Statutes, is amended to read:

42-5071. Personal property rental classification; definitions

A. The personal property rental classification is comprised of the business of leasing or renting tangible personal property for a consideration and includes peer-to-peer car sharing. The tax does not apply to:

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

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

3. Leasing or renting tangible personal property by a parent business entity to a subsidiary business entity or by a subsidiary business entity to another subsidiary of the same parent business entity if taxes were paid under this chapter on the gross proceeds or gross income accruing from the initial sale of the tangible personal property. For the purposes of this paragraph, "subsidiary" means a business entity of which at least eighty percent of the voting shares are owned by the parent business entity.

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

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

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

7. Leasing or renting photographs, transparencies or other creative works used by this state on internet websites, in magazines or in other publications that encourage tourism.

8. Leasing or renting certified ignition interlock devices installed pursuant to the requirements prescribed by section 28-1461. For the purposes of this paragraph, "certified ignition interlock device" has the same meaning prescribed in section 28-1301.

9. The leasing or renting of space to make attachments to utility poles, as follows:
   (a) By a person that is engaged in business under section 42-5063 or 42-5064 or that is a cable operator.
   (b) To a person that is engaged in business under section 42-5063 or 42-5064 or that is a cable operator.

10. Leasing or renting billboards that are designed, intended or used to advertise or inform and that are visible from any street, road or other highway.

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

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

2. Leases or rentals of tangible personal property that, if it had been purchased instead of leased or rented by the lessee, would have been exempt under:
   (a) Section 42-5061, subsection A, paragraph 8, 9, 12, 13, 25, 29, 49 or 53.
   (b) Section 42-5061, subsection B, except that a lease or rental of new machinery or equipment is not exempt pursuant to section 42-5061, subsection B, paragraph 14 if the lease is for less than two years.
   (c) Section 42-5061, subsection I, paragraph 1.
   (d) Section 42-5061, subsection M.

3. Motor vehicle fuel and use fuel that are subject to a tax imposed under title 28, chapter 16, article 1, sales of use fuel to a holder of a valid single trip use fuel tax permit issued under section 28-5739 and sales of aviation fuel that are subject to the tax imposed under section 28-8344.
4. Leasing or renting a motor vehicle subject to and on which the fee has been paid under title 28, chapter 16, article 4.

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

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

D. In computing the tax base, the gross proceeds of sales or gross income from the lease or rental of a motor vehicle does not include any amount attributable to the car rental surcharge under section 5-839, 28-5810 or 48-4234.

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

F. The tax base of the personal property rental classification does not include the gross proceeds or gross income received by a shared vehicle owner from a peer-to-peer car sharing program pursuant to section 42-5009, subsection R.

G. For the purposes of this section:
   1. "Cable operator" has the same meaning prescribed in section 9-505 and includes a video service provider.
   2. "Peer-to-peer car sharing" has the same meaning prescribed in section 28-9601.
   3. "Peer-to-peer car sharing program" has the same meaning prescribed in section 28-9601.
   4. "Shared vehicle owner" has the same meaning prescribed in section 28-9601.
   5. "Utility pole" means any wooden, metal or other pole used for utility purposes and the pole's appurtenances that are attached or authorized for attachment by the person controlling the pole.

Sec. 10. Section 42-5075, Arizona Revised Statutes, is amended to read:

42-5075. Prime contracting classification; exemptions; definitions

A. The prime contracting classification is comprised of the business of prime contracting and the business of manufactured building dealer. Sales for resale to another manufactured building dealer are not subject to tax. Sales for resale do not include sales to a lessor of manufactured buildings. The sale of a used manufactured building is not
taxable under this chapter. The prime contracting classification does not include any work or operation performed by a person that is not required to be licensed by the registrar of contractors pursuant to section 32-1121.

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

1. The sales price of land, which shall not exceed the fair market value.

2. Sales and installation of groundwater measuring devices required under section 45-604 and groundwater monitoring wells required by law, including monitoring wells installed for acquiring information for a permit required by law.

3. The sales price of furniture, furnishings, fixtures, appliances and attachments that are not incorporated as component parts of or attached to a manufactured building or the setup site. The sale of such items may be subject to the taxes imposed by article 1 of this chapter separately and distinctively from the sale of the manufactured building.

4. The gross proceeds of sales or gross income received from a contract entered into for the modification of any building, highway, road, railroad, excavation, manufactured building or other structure, project, development or improvement located in a military reuse zone for providing aviation or aerospace services or for a manufacturer, assembler or fabricator of aviation or aerospace products within an active military reuse zone after the zone is initially established or renewed under section 41-1531. To be eligible to qualify for this deduction, before beginning work under the contract, the prime contractor must have applied for a letter of qualification from the department of revenue.

5. The gross proceeds of sales or gross income derived from a contract to construct a qualified environmental technology manufacturing, producing or processing facility, as described in section 41-1514.02, and from subsequent construction and installation contracts that begin within ten years after the start of initial construction. To qualify for this deduction, before beginning work under the contract, the prime contractor must obtain a letter of qualification from the department of revenue. This paragraph shall apply for ten full consecutive calendar or fiscal years after the start of initial construction.

6. The gross proceeds of sales or gross income from a contract to provide for one or more of the following actions, or a contract for site preparation, constructing, furnishing or installing machinery, equipment or other tangible personal property, including structures necessary to protect exempt incorporated materials or installed machinery or equipment, and tangible personal property incorporated into the project, to perform one or more of the following actions in response to a release or suspected
release of a hazardous substance, pollutant or contaminant from a facility to the environment, unless the release was authorized by a permit issued by a governmental authority:

(a) Actions to monitor, assess and evaluate such a release or a suspected release.
(b) Excavation, removal and transportation of contaminated soil and its treatment or disposal.
(c) Treatment of contaminated soil by vapor extraction, chemical or physical stabilization, soil washing or biological treatment to reduce the concentration, toxicity or mobility of a contaminant.
(d) Pumping and treatment or in situ treatment of contaminated groundwater or surface water to reduce the concentration or toxicity of a contaminant.
(e) The installation of structures, such as cutoff walls or caps, to contain contaminants present in groundwater or soil and prevent them from reaching a location where they could threaten human health or welfare or the environment.

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

7. The gross proceeds of sales or gross income that is derived from a contract for the installation, assembly, repair or maintenance of machinery, equipment or other tangible personal property that is either deducted from the tax base of the retail classification under section 42-5061, subsection B or that is exempt from use tax under section 42-5159, subsection B and that has independent functional utility, pursuant to the following provisions:

(a) The deduction provided in this paragraph includes the gross proceeds of sales or gross income derived from all of the following:
   (i) Any activity performed on machinery, equipment or other tangible personal property with independent functional utility.
   (ii) Any activity performed on any tangible personal property relating to machinery, equipment or other tangible personal property with independent functional utility in furtherance of any of the purposes provided for under subdivision (d) of this paragraph.
   (iii) Any activity that is related to the activities described in items (i) and (ii) of this subdivision, including inspecting the installation of or testing the machinery, equipment or other tangible personal property.

(b) The deduction provided in this paragraph does not include gross proceeds of sales or gross income from the portion of any contracting activity that consists of the development of, or modification to, real property in order to facilitate the installation, assembly, repair,
maintenance or removal of machinery, equipment or other tangible personal property that is either deducted from the tax base of the retail classification under section 42-5061, subsection B or exempt from use tax under section 42-5159, subsection B.

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

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

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

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

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

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

8. The gross proceeds of sales or gross income attributable to the purchase of machinery, equipment or other tangible personal property that is exempt from or deductible from transaction privilege and use tax under:

(a) Section 42-5061, subsection A, paragraph 25, 29 or 58.

(b) Section 42-5061, subsection B.

(c) Section 42-5159, subsection A, paragraph 13, subdivision (a), (b), (c), (d), (e), (f), (j), (k), (m) or (n) or paragraph 55.

(d) Section 42-5159, subsection B.

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

10. The gross proceeds of sales or gross income that is derived from a contract entered into with a person who is engaged in the commercial production of livestock, livestock products or agricultural horticultural, viticultural or floricultural crops or products in this state for the modification of any building, highway, road, excavation, manufactured building or other structure, project, development or improvement used directly and primarily to prevent, monitor, control or reduce air, water or land pollution.
11. The gross proceeds of sales or gross income that is derived from the installation, assembly, repair or maintenance of clean rooms that are deducted from the tax base of the retail classification pursuant to section 42-5061, subsection B, paragraph 17.

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

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

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

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

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

17. The gross proceeds of sales or gross income received from contracts entered into before July 1, 2006 for constructing a state university research infrastructure project if the project has been reviewed by the joint committee on capital review before the university enters into the construction contract for the project. For the purposes of this paragraph, "research infrastructure" has the same meaning prescribed in section 15-1670.

18. The gross proceeds of sales or gross income received from a contract for the construction of any building, or other structure, project, development or improvement owned by a qualified business under section 41-1516 for harvesting or processing qualifying forest products removed from qualifying projects as defined in section 41-1516 if actual construction begins before January 1, 2024. To qualify for this deduction, the prime contractor must obtain a letter of qualification from the Arizona commerce authority before beginning work under the contract.
19. Any amount of the gross proceeds of sales or gross income attributable to development fees that are incurred in relation to a contract for construction, development or improvement of real property and that are paid by a prime contractor or subcontractor. For the purposes of this paragraph:
   (a) The attributable amount shall not exceed the value of the development fees actually imposed.
   (b) The attributable amount is equal to the total amount of development fees paid by the prime contractor or subcontractor, and the total development fees credited in exchange for the construction of, contribution to or dedication of real property for providing public infrastructure, public safety or other public services necessary to the development. The real property must be the subject of the development fees.
   (c) "Development fees" means fees imposed to offset capital costs of providing public infrastructure, public safety or other public services to a development and authorized pursuant to section 9-463.05, section 11-1102 or title 48 regardless of the jurisdiction to which the fees are paid.

20. The gross proceeds of sales or gross income derived from a contract entered into for the construction of a mixed waste processing facility that is located on a municipal solid waste landfill and that is constructed for the purpose of recycling solid waste or producing renewable energy from landfill waste. For the purposes of this paragraph:
   (a) "Mixed waste processing facility" means a solid waste facility that is owned, operated or used for the treatment, processing or disposal of solid waste, recyclable solid waste, conditionally exempt small quantity generator waste or household hazardous waste. For the purposes of this subdivision, "conditionally exempt small quantity generator waste", "household hazardous waste" and "solid waste facility" have the same meanings prescribed in section 49-701, except that solid waste facility does include a site that stores, treats or processes paper, glass, wood, cardboard, household textiles, scrap metal, plastic, vegetative waste, aluminum, steel or other recyclable material.
   (b) "Municipal solid waste landfill" has the same meaning prescribed in section 49-701.
   (c) "Recycling" means collecting, separating, cleansing, treating and reconstituting recyclable solid waste that would otherwise become solid waste, but does not include incineration or other similar processes.
   (d) "Renewable energy" has the same meaning prescribed in section 41-1511.

21. THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM A CONTRACT TO INSTALL CONTAINMENT STRUCTURES. FOR THE PURPOSES OF THIS PARAGRAPH, "CONTAINMENT STRUCTURE" MEANS A STRUCTURE THAT PREVENTS,
C. Entitlement to the deduction pursuant to subsection B, paragraph 7 of this section is subject to the following provisions:

1. A prime contractor may establish entitlement to the deduction by both:
   (a) Marking the invoice for the transaction to indicate that the gross proceeds of sales or gross income derived from the transaction was deducted from the base.
   (b) Obtaining a certificate executed by the purchaser indicating the name and address of the purchaser, the precise nature of the business of the purchaser, the purpose for which the purchase was made, the necessary facts to establish the deductibility of the property under section 42-5061, subsection B, and a certification that the person executing the certificate is authorized to do so on behalf of the purchaser. The certificate may be disregarded if the prime contractor has reason to believe that the information contained in the certificate is not accurate or complete.

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

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

4. If a prime contractor is entitled to a deduction by complying with paragraph 1 of this subsection, the department may require the purchaser who caused the execution of the certificate to establish the accuracy and completeness of the information required to be contained in the certificate that would entitle the prime contractor to the deduction. If the purchaser cannot establish the accuracy and completeness of the information, the purchaser is liable in an amount equal to any tax, penalty and interest that the prime contractor would have been required to pay under article 1 of this chapter if the prime contractor had not complied with paragraph 1 of this subsection. Payment of the amount under this paragraph exempts the purchaser from liability for any tax imposed under article 4 of this chapter. The amount shall be treated as a transaction privilege tax to the purchaser and as tax revenues collected from the prime contractor in order to designate the distribution base for purposes of section 42-5029.
D. Subcontractors or others who perform modification activities are not subject to tax if they can demonstrate that the job was within the control of a prime contractor or contractors or a dealership of manufactured buildings and that the prime contractor or dealership is liable for the tax on the gross income, gross proceeds of sales or gross receipts attributable to the job and from which the subcontractors or others were paid.

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

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

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

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

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

J. Except as provided in subsection O of this section, the gross proceeds of sales or gross income derived from landscaping activities is subject to tax under this section. Landscaping includes installing lawns, grading or leveling ground, installing gravel or boulders, planting trees and other plants, felling trees, removing or mulching tree stumps, removing other imbedded plants, building irrigation berms, installing railroad ties and installing underground sprinkler or watering systems.

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

L. Operating a landfill or a solid waste disposal facility is not subject to taxation under this section, including filling, compacting and creating vehicle access to and from cell sites within the landfill. Constructing roads to a landfill or solid waste disposal facility and constructing cells within a landfill or solid waste disposal facility may be deemed prime contracting under this section.

M. The following apply in determining the taxable situs of sales of manufactured buildings:

1. For sales in this state where the manufactured building dealer contracts to deliver the building to a setup site or to perform the setup in this state, the taxable situs is the setup site.

2. For sales in this state where the manufactured building dealer does not contract to deliver the building to a setup site or does not perform the setup, the taxable situs is the location of the dealership where the building is delivered to the buyer.

3. For sales in this state where the manufactured building dealer contracts to deliver the building to a setup site that is outside this state, the situs is outside this state and the transaction is excluded from tax.

N. The gross proceeds of sales or gross income attributable to a written contract for design phase services or professional services, executed before modification begins and with terms, conditions and pricing of all of these services separately stated in the contract from those for construction phase services, is not subject to tax under this section, regardless of whether the services are provided sequential to or concurrent with prime contracting activities that are subject to tax under this section. This subsection does not include the gross proceeds of
sales or gross income attributable to construction phase services. For
the purposes of this subsection:

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

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

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

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

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

      (ii) The amount of an adjustment, if any, to the guaranteed maximum
      price as set in the contract for modification work. For the purposes of
      this item, "guaranteed maximum price" means the amount guaranteed to be
      the maximum amount due to a prime contractor for the performance of all
      modification work for the project.

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

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

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

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

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

      (i) Master schedule updates.

      (ii) Modification work cash flow projection updates.

      (iii) Site reports made on a periodic basis.
(iv) Identification of discrepancies, conflicts or ambiguities in modification work documents that require resolution.

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

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

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

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

2. “Design phase services” means services for developing and completing a design for a project that are not construction phase services, including the following:

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

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

(c) Preparing drawings and specifications for architectural program documents, schematic design documents, design development documents, modification work documents or documents that identify the scope of or materials for the project.

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

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

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

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

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

(iv) The cost of any labor for installation of equipment separately provided by the owner of the real property that has been designed, specified, selected or specifically provided for in any design document for the project.
(v) Any fee paid by the owner of the real property to the prime contractor pursuant to the contract for modification work.

(vi) Any bond and insurance premiums.

(vii) Any applicable taxes.

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

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

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

3. "Professional services" means architect services, engineer services, geologist services, land surveying services or landscape architect services that are within the scope of those services as provided in title 32, chapter 1 and for which gross proceeds of sales or gross income has not otherwise been deducted under subsection K of this section. 0. The gross proceeds of sales or gross income derived from a contract with the owner of real property or improvements to real property for the maintenance, repair, replacement or alteration of existing property is not subject to tax under this section if the contract does not include modification activities, except as specified in this subsection. The gross proceeds of sales or gross income derived from a de minimis amount of modification activity does not subject the contract or any part of the contract to tax under this section. For the purposes of this subsection:

1. Tangible personal property that is incorporated or fabricated into a project described in this subsection may be subject to the amount prescribed in section 42-5008.01.

2. Each contract is independent of any other contract, except that any change order that directly relates to the scope of work of the original contract shall be treated the same as the original contract under this chapter, regardless of the amount of modification activities included in the change order. If a change order does not directly relate to the scope of work of the original contract, the change order shall be treated as a new contract, with the tax treatment of any subsequent change order to follow the tax treatment of the contract to which the scope of work of the subsequent change order directly relates.

P. Notwithstanding subsection O of this section, a contract that primarily involves surface or subsurface improvements to land and that is subject to title 28, chapter 19, 20 or 22 or title 34, chapter 2 or 6 is taxable under this section, even if the contract also includes vertical improvements. Agencies that are subject to procurement processes under
those provisions shall include in the request for proposals a notice to bidders when those projects are subject to this section. This subsection does not apply to contracts with:

1. Community facilities districts, fire districts, county television improvement districts, community park maintenance districts, cotton pest control districts, hospital districts, pest abatement districts, health service districts, agricultural improvement districts, county free library districts, county jail districts, county stadium districts, special health care districts, public health services districts, theme park districts or revitalization districts.

2. Any special taxing district not specified in paragraph 1 of this subsection if the district does not substantially engage in the modification, maintenance, repair, replacement or alteration of surface or subsurface improvements to land.

Q. Notwithstanding subsection R, paragraph 10 of this section, a person owning real property who enters into a contract for sale of the real property, who is responsible to the new owner of the property for modifications made to the property in the period subsequent to the transfer of title and who receives a consideration for the modifications is considered a prime contractor solely for purposes of taxing the gross proceeds of sale or gross income received for the modifications made subsequent to the transfer of title. The original owner's gross proceeds of sale or gross income received for the modifications shall be determined according to the following methodology:

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

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

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

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

R. For the purposes of this section:

1. "Alteration" means an activity or action that causes a direct physical change to existing property. For the purposes of this paragraph:
   (a) For existing property that is properly classified as class two property under section 42-12002, paragraph 1, subdivision (c) or paragraph 2, subdivision (c) and that is used for residential purposes, class three property under section 42-12003 or class four property under section 42-12004, this paragraph does not apply if the contract amount is more than twenty-five percent of the most recent full cash value established under chapter 13, article 2 of this title as of the date of any bid for the work or the date of the contract, whichever value is higher.
   (b) For all existing property other than existing property described in subdivision (a) of this paragraph, this paragraph does not apply if the contract amount is more than $750,000.
   (c) Project elements may not be artificially separated from a contract to cause a project to qualify as an alteration. The department has the burden of proof that project elements have been artificially separated from a contract.
   (d) If a project for which the owner and the person performing the work reasonably believed, at the inception of the contract, would be treated as an alteration under this paragraph and, on completion of the project, the project exceeded the applicable threshold described in either subdivision (a) or (b) of this paragraph by no more than twenty-five percent of the applicable threshold for any reason, the work performed under the contract qualifies as an alteration.
   (e) A change order that directly relates to the scope of work of the original contract shall be treated as part of the original contract, and the contract amount shall include any amount attributable to a change order that directly relates to the scope of work of the original contract.
   (f) Alteration does not include maintenance, repair or replacement.

2. "Contracting" means engaging in business as a contractor.

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

4. "Manufactured building" means a manufactured home, mobile home
or factory-built building, as defined in section 41-4001.

5. "Manufactured building dealer" means a dealer who either:
   (a) Is licensed pursuant to title 41, chapter 37, article 4 and who
       sells manufactured buildings to the final consumer.
   (b) Supervises, performs or coordinates the excavation and
       completion of site improvements or the setup of a manufactured building,
       including the contracting, if any, with any subcontractor or specialty
       contractor for the completion of the contract.

6. "Modification" means construction, grading and leveling ground,
   wreckage or demolition. Modification does not include:
   (a) Any project described in subsection 0 of this section.
   (b) Any wreckage or demolition of existing property, or any other
       activity that is a necessary component of a project described in
       subsection 0 of this section.
   (c) Any mobilization or demobilization related to a project
       described in subsection 0 of this section, such as the erection or removal
       of temporary facilities to be used by those persons working on the
       project.

7. "Modify" means to make a modification or cause a modification to
   be made.

8. "Owner" means the person that holds title to the real property
   or improvements to real property that is the subject of the work, as well
   as an agent of the title holder and any person with the authority to
   perform or authorize work on the real property or improvements, including
   a tenant and a property manager. For the purposes of subsection 0 of this
   section, a person who is hired by a general contractor that is hired by an
   owner, or a subcontractor of a general contractor that is hired by an
   owner, is considered to be hired by the owner.

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

10. "Prime contractor" means a contractor who supervises, performs
    or coordinates the modification of any building, highway, road, railroad,
    excavation, manufactured building or other structure, project, development
    or improvement, including the contracting, if any, with any subcontractors
    or specialty contractors and who is responsible for the completion of the
    contract. Except as provided in subsections E and Q of this section, a
    person who owns real property, who engages one or more contractors to
    modify that real property and who does not itself modify that real
    property is not a prime contractor within the meaning of this paragraph
    regardless of the existence of a contract for sale or the subsequent sale
    of that real property.
11. "Replacement" means the removal from service of one component or system of existing property or tangible personal property installed in existing property, including machinery or equipment, and the installation of a new component or system or new tangible personal property, including machinery or equipment, that provides the same, a similar or an upgraded design or functionality, regardless of the contract amount and regardless of whether the existing component or system or existing tangible personal property is physically removed from the existing property.

12. "Sale of a used manufactured building" does not include a lease of a used manufactured building.

Sec. 11. Section 42-5159, Arizona Revised Statutes, is amended to read:

42-5159. Exemptions

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

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

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

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

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

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

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

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

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

9. Propagative materials for use in commercially producing agricultural, horticultural, viticultural or floricultural crops in this state. For the purposes of this paragraph, "propagative materials":
   (a) Includes seeds, seedlings, roots, bulbs, liners, transplants, cuttings, soil and plant additives, agricultural minerals, auxiliary soil and plant substances, micronutrients, fertilizers, insecticides, herbicides, fungicides, soil fumigants, desiccants, rodenticides, adjuvants, plant nutrients and plant growth regulators.
   (b) Except for use in commercially producing industrial hemp as defined in section 3-311, does not include any propagative materials used in producing any part, including seeds, of any plant of the genus cannabis.

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

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

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

13. Tangible personal property purchased by:
   (a) A hospital organized and operated exclusively for charitable purposes, no part of the net earnings of which inures to the benefit of any private shareholder or individual.
(b) A hospital operated by this state or a political subdivision of this state.
(c) A licensed nursing care institution or a licensed residential care institution or a residential care facility operated in conjunction with a licensed nursing care institution or a licensed kidney dialysis center, which provides medical services, nursing services or health related services and is not used or held for profit.
(d) A qualifying health care organization, as defined in section 42-5001, if the tangible personal property is used by the organization solely to provide health and medical related educational and charitable services.
(e) A qualifying health care organization as defined in section 42-5001 if the organization is dedicated to providing educational, therapeutic, rehabilitative and family medical education training for blind and visually impaired children and children with multiple disabilities from the time of birth to age twenty-one.
(f) A nonprofit charitable organization that has qualified under section 501(c)(3) of the United States internal revenue code and that engages in and uses such property exclusively in programs for persons with mental or physical disabilities if the programs are exclusively for training, job placement, rehabilitation or testing.
(g) A person that is subject to tax under this chapter by reason of being engaged in business classified under section 42-5075, or a subcontractor working under the control of a person that is engaged in business classified under section 42-5075, if the tangible personal property is any of the following:
   (i) Incorporated or fabricated by the person into a structure, project, development or improvement in fulfillment of a contract.
   (ii) Incorporated or fabricated by the person into any project described in section 42-5075, subsection O.
   (iii) Used in environmental response or remediation activities under section 42-5075, subsection B, paragraph 6.
(h) A person that is not subject to tax under section 42-5075 and that has been provided a copy of a certificate described in section 42-5009, subsection L, if the property purchased is incorporated or fabricated by the person into the real property, structure, project, development or improvement described in the certificate.
(i) A nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code if the property is purchased from the parent or an affiliate organization that is located outside this state.
(j) A qualifying community health center as defined in section 42-5001.
(k) A nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that regularly serves meals to the needy and indigent on a continuing basis at no cost.

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

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

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

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

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

15. Tangible personal property sold by:

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

(b) A nonprofit organization that is exempt from taxation under section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if the organization is associated with a major league baseball team or a national touring professional golfing association and no part of the organization's net earnings inures to the benefit of any private shareholder or individual. This subdivision does not apply to an organization that is owned, managed or controlled, in whole or in part, by a major league baseball team, or its owners, officers, employees or agents, or by a major league baseball association or professional golfing association, or its owners, officers, employees or agents, unless the organization conducted or operated exhibition events in this state before January 1, 2018 that were exempt from transaction privilege tax under section 42-5073.
(c) A nonprofit organization that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the organization sponsors or operates a rodeo featuring primarily farm and ranch animals and no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

16. Drugs and medical oxygen, including delivery hose, mask or tent, regulator and tank, if prescribed by a member of the medical, dental or veterinarian profession who is licensed by law to administer such substances.

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

18. Prescription eyeglasses and contact lenses.

19. Insulin, insulin syringes and glucose test strips.

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

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

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

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

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

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

26. Food, drink or condiment and accessory tangible personal property that are acquired for use by or provided to a school district or charter school if they are to be either served or prepared and served to persons for consumption on the premises of a public school in the school district or on the premises of the charter school during school hours.
27. Lottery tickets or shares purchased pursuant to title 5, chapter 5.1, article 1.

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

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

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

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

32. Motor vehicles that are removed from inventory by a motor vehicle dealer as defined in section 28-4301 and that are provided to:
   (a) Charitable or educational institutions that are exempt from taxation under section 501(c)(3) of the internal revenue code.
   (b) Public educational institutions.
   (c) State universities or affiliated organizations of a state university if no part of the organization's net earnings inures to the benefit of any private shareholder or individual.

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

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

35. Liquid, solid or gaseous chemicals used in manufacturing, processing, fabricating, mining, refining, metallurgical operations, research and development and, beginning on January 1, 1999, printing, if using or consuming the chemicals, alone or as part of an integrated system of chemicals, involves direct contact with the materials from which the product is produced for the purpose of causing or allowing a chemical or physical change to occur in the materials as part of the production process. This paragraph does not include chemicals that are used or consumed in activities such as packaging, storage or transportation but does not affect any 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 that is subject to a fee prescribed in title 28, chapter 16, article 4 and that is engaged in the business of leasing or renting such a 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 performing a contract, the cost of which is charged to an overhead expense account and allocated to various contracts based on generally accepted accounting principles and consistent with government contract accounting standards.

(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 perform 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 performing 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 defined in section 42-5061, if the gross proceeds of the sales were
41. Wireless telecommunications equipment that is held for sale or transfer to a customer as an inducement to enter into or continue a contract for telecommunications services that are taxable under section 42-5064.

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

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

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

45. Gas diverted from a pipeline, by a person engaged in the business of:
   (a) Operating a natural or artificial gas pipeline, and used or consumed for the sole purpose of fueling compressor equipment that pressurizes the pipeline.
   (b) Converting natural gas into liquefied natural gas, and used or consumed for the sole purpose of fueling compressor equipment used in the conversion process.

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

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

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

49. Prepared food, drink or condiment donated by a restaurant as classified in section 42-5074, subsection A to a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that regularly serves meals to the needy and indigent on a continuing basis at no cost.
50. Application services that are designed to assess or test student learning or to promote curriculum design or enhancement purchased by or for any school district, charter school, community college or state university. For the purposes of this paragraph:
   (a) "Application services" means software applications provided remotely using hypertext transfer protocol or another network protocol.
   (b) "Curriculum design or enhancement" means planning, implementing or reporting on courses of study, lessons, assignments or other learning activities.

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

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

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

54. Coal acquired from an owner or operator of a power plant by a person that is responsible for refining coal if both of the following apply:
   (a) The transfer of title or possession of the coal is for the purpose of refining the coal.
   (b) The title or possession of the coal is transferred back to the owner or operator of the power plant after completion of the coal refining process. For the purposes of this subdivision, "coal refining process" means the application of a coal additive system that aids the reduction of power plant emissions during the combustion of coal and the treatment of flue gas.

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

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

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

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

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

(ii) Prepaid calling cards for telecommunications services.

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

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

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

1. Machinery, or equipment, used directly in manufacturing, processing, fabricating, job printing, refining or metallurgical operations. The terms "manufacturing", "processing", "fabricating", "job printing", "refining" and "metallurgical" as used in this paragraph refer to and include those operations commonly understood within their ordinary meaning. "Metallurgical operations" includes leaching, milling, precipitating, smelting and refining.
2. Machinery, or equipment, used directly in the process of extracting ores or minerals from the earth for commercial purposes, including equipment required to prepare the materials for extraction and handling, loading or transporting such extracted material to the surface. “Mining” includes underground, surface and open pit operations for extracting ores and minerals.

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

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

5. Machinery and equipment used directly for energy storage for later electrical use. For the purposes of this paragraph:
   (a) “Electric utility scale” means a person that is engaged in a business activity described in section 42-5063, subsection A or such person’s equipment or wholesale electricity suppliers.
   (b) “Energy storage” means commercially available technology for electric utility scale that is capable of absorbing energy, storing energy for a period of time and thereafter dispatching the energy and that uses mechanical, chemical or thermal processes to store energy.
   (c) “Machinery and equipment used directly” means all machinery and equipment that are used for electric energy storage from the point of receipt of such energy in order to facilitate storage of the electric energy to the point where the electric energy is released.

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

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

8. Aircraft, navigational and communication instruments and other accessories and related equipment sold to:
   (a) A person:
      (i) Holding, or exempted by federal law from obtaining, a federal certificate of public convenience and necessity for use as, in conjunction
with or becoming part of an aircraft to be used to transport persons for
hire in intrastate, interstate or foreign commerce.

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

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

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

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

(b) Any foreign government.

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

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

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

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

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


14. New Machinery and equipment consisting of agricultural
aircraft, tractors, OFF-HIGHWAY VEHICLES, tractor-drawn implements,
self-powered implements, machinery and equipment necessary for extracting
milk, and machinery and equipment necessary for cooling milk and
livestock, and drip irrigation lines not already exempt under paragraph 7
of this subsection and that are used for commercially producing
agricultural, horticultural, viticultural and floricultural crops and
products in this state. For the purposes of this paragraph:

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

(b) "OFF-HIGHWAY VEHICLES" MEANS OFF-HIGHWAY VEHICLES AS DEFINED IN
SECTION 28-1171 THAT ARE MODIFIED AT THE TIME OF SALE TO FUNCTION AS A
TRACTOR OR TO TOW TRACTOR-DRAWN IMPLEMENTS AND THAT ARE NOT EQUIPPED WITH
A MODIFIED EXHAUST SYSTEM TO INCREASE HORSEPOWER OR SPEED OR AN ENGINE
THAT IS MORE THAN ONE THOUSAND CUBIC CENTIMETERS OR THAT HAVE A MAXIMUM
SPEED OF FIFTY MILES PER HOUR OR LESS.

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

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

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

(a) Any direct broadcast satellite television or data transmission
service that operates pursuant to 47 Code of Federal Regulations part 25.
(b) Any satellite television or data transmission facility, if both of the following conditions are met:

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

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

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

17. Clean rooms that are used for manufacturing, processing, fabrication or research and development, as defined in paragraph 15 of this subsection, of semiconductor products. For the purposes of this paragraph, "clean room" means all property that comprises or creates an environment where humidity, temperature, particulate matter and contamination are precisely controlled within specified parameters, without regard to whether the property is actually contained within that environment or whether any of the property is affixed to or incorporated into real property. Clean room:

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

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

18. Machinery and equipment that are used directly in feeding poultry, environmentally controlling housing for poultry, moving eggs within a production and packaging facility or sorting or cooling eggs. This exemption does not apply to vehicles used for transporting eggs.

19. Machinery or equipment, including related structural components and containment structures, that is employed in connection with manufacturing, processing, fabricating, job printing, refining, mining, natural gas pipelines, metallurgical operations, telecommunications, producing or transmitting electricity or research and development and that is used directly to meet or exceed rules or regulations adopted by the federal energy regulatory commission, the United States environmental protection agency, the United States nuclear regulatory commission, the
Arizona department of environmental quality or a political subdivision of this state to prevent, monitor, control or reduce land, water or air pollution. For the purposes of this paragraph, "containment structure" means a structure that prevents, monitors, controls or reduces noxious or harmful discharge into the environment.

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

21. Machinery or equipment that enables a television station to originate and broadcast or to receive and broadcast digital television signals and that was purchased to facilitate compliance with the telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United States Code section 336) and the federal communications commission order issued April 21, 1997 (47 Code of Federal Regulations part 73). This paragraph does not exempt any of the following:
   (a) Repair or replacement parts purchased for the machinery or equipment described in this paragraph.
   (b) Machinery or equipment purchased to replace machinery or equipment for which an exemption was previously claimed and taken under this paragraph.
   (c) Any machinery or equipment purchased after the television station has ceased analog broadcasting, or purchased after November 1, 2009, whichever occurs first.

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

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

24. Computer data center equipment sold to the owner, operator or qualified colocation tenant of a computer data center that is certified by the Arizona commerce authority under section 41-1519 or an authorized agent of the owner, operator or qualified colocation tenant during the qualification period for use in the qualified computer data center. For the purposes of this paragraph, "computer data center", "computer data
center equipment", "qualification period" and "qualified colocation
tenant" have the same meanings prescribed in section 41-1519.
C. The exemptions provided by subsection B of this section do not
include:
1. Expendable materials. For the purposes of this paragraph, expe-
  ndable materials do not include any of the categories of tangible
personal property specified in subsection B of this section regardless of
the cost or useful life of that property.
2. Janitorial equipment and hand tools.
3. Office equipment, furniture and supplies.
4. Tangible personal property used in selling or distributing
activities, other than the telecommunications transmissions described in
subsection B, paragraph 16 of this section.
5. Motor vehicles required to be licensed by this state, except
buses or other urban mass transit vehicles specifically exempted pursuant
to subsection B, paragraph 12 of this section, without regard to the use
of such motor vehicles.
6. Shops, buildings, docks, depots and all other materials of
whatever kind or character not specifically included as exempt.
7. Motors and pumps used in drip irrigation systems.
8. Machinery and equipment or tangible personal property used by a
contractor in performing a contract.
D. The following shall be deducted in computing the purchase price
of electricity by a retail electric customer from a utility business:
1. Revenues received from sales of ancillary services, electric
distribution services, electric generation services, electric transmission
services and other services related to providing electricity to a retail
electric customer who is located outside this state for use outside this
state if the electricity is delivered to a point of sale outside this
state.
2. Revenues received from providing electricity, including
ancillary services, electric distribution services, electric generation
services, electric transmission services and other services related to
providing electricity with respect to which the transaction privilege tax
imposed under section 42-5063 has been paid.
E. The tax levied by this article does not apply to the purchase of
solar energy devices from a retailer that is registered with the
department as a solar energy retailer or a solar energy contractor.
F. The following shall be deducted in computing the purchase price
of electricity by a retail electric customer from a utility business:
1. Fees charged by a municipally owned utility to persons
constructing residential, commercial or industrial developments or
connecting residential, commercial or industrial developments to a
municipal utility system or systems if the fees are segregated and used
only for capital expansion, system enlargement or debt service of the utility system or systems.

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

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

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

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

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

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

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

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

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

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

         (v) A business that uses at least fifty-one percent of the value of its capitalized assets in this state, as reflected on the business's books and records, for manufacturing or smelting and business activities directly related to manufacturing or smelting.
(d) "Smelting" means to melt or fuse a metalliferous mineral, often with an accompanying chemical change, usually to separate the metal.

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

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

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

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

2. "Aircraft" includes:
   (a) An airplane flight simulator that is approved by the federal aviation administration for use as a phase II or higher flight simulator under appendix H, 14 Code of Federal Regulations part 121.
   (b) Tangible personal property that is permanently affixed or attached as a component part of an aircraft that is owned or operated by a certificated or licensed carrier of persons or property.

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

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

Sec. 12. Section 42-6004, Arizona Revised Statutes, as amended by Laws 2021, chapter 417, section 10, is amended to read:

42-6004. Exemption from municipal tax; definitions

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

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

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

3. Sales of warranty or service contracts.

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

5. Interest on finance contracts.

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

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

8. Sales of internet access services to the person's subscribers
and customers. For the purposes of this paragraph:
   (a) "Internet" means the computer and telecommunications facilities
that comprise the interconnected worldwide network of networks that employ
the transmission control protocol or internet protocol, or any predecessor
or successor protocol, to communicate information of all kinds by wire or
radio.
   (b) "Internet access" means a service that enables users to access
content, information, electronic mail or other services over the internet.
Internet access does not include telecommunication services provided by a
common carrier.

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

10. Leasing real property between affiliated companies, businesses,
    persons or reciprocal insurers. For the purposes of this paragraph:
    (a) "Affiliated companies, businesses, persons or reciprocal
insurers" means the lessor holds a controlling interest in the lessee, the
lessee holds a controlling interest in the lessor, affiliated persons hold
a controlling interest in both the lessor and the lessee, or an unrelated
person holds a controlling interest in both the lessor and lessee.
    (b) "Affiliated persons" means members of the individual's family
or persons who have ownership or control of a business entity.
    (c) "Controlling interest" means direct or indirect ownership of at
least eighty percent of the voting shares of a corporation or of the
interests in a company, business or person other than a corporation.
    (d) "Members of the individual's family" means the individual's
spouse and brothers and sisters, whether by whole or half blood, including
adopted persons, ancestors and lineal descendants.
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1. The gross proceeds of sales or gross income derived from a contract for the installation, assembly, repair or maintenance of machinery, equipment or other tangible personal property that is described in section 42-5061, subsection B and that has independent functional utility, pursuant to the following provisions:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17. The transfer of title or possession of coal back and forth between an owner or operator of a power plant and a person who is responsible for refining coal if both of the following apply:
   (a) The transfer of title or possession of the coal is for the purpose of refining the coal.
   (b) The title or possession of the coal is transferred back to the owner or operator of the power plant after completion of the coal refining process. For the purposes of this subdivision, "coal refining process" means the application of a coal additive system that aids the reduction of power plant emissions during the combustion of coal and the treatment of flue gas.

18. Tangible personal property incorporated or fabricated into a project described in paragraph 14 of this subsection, that is located within the exterior boundaries of an Indian reservation for which the owner, as defined in section 42-5075, of the project is an Indian tribe or an affiliated Indian. For the purposes of this paragraph:
   (a) "Affiliated Indian" means an individual Native American Indian who is duly registered on the tribal rolls of the Indian tribe for whose benefit the Indian reservation was established.
   (b) "Indian reservation" means all lands that are within the limits of areas set aside by the United States for the exclusive use and occupancy of an Indian tribe by treaty, law or executive order and that are recognized as Indian reservations by the United States department of the interior.
   (c) "Indian tribe" means any organized nation, tribe, band or community that is recognized as an Indian tribe by the United States department of the interior and includes any entity formed under the laws of that Indian tribe.

19. The charges for the leasing or renting of space to make attachments to utility poles as follows:
   (a) By a person that is engaged in the business of providing or furnishing electrical services or telecommunication services or that is a cable operator.
   (b) To a person that is engaged in the business of providing or furnishing electrical services or telecommunication services or that is a cable operator.
20. Until March 1, 2017, the gross proceeds of sales or gross income derived from entry fees paid by participants for events that consist of a run, walk, swim or bicycle ride or a similar event, or any combination of these events.

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

22. The gross proceeds of sales or gross income derived from sales of machinery and equipment used directly for energy storage for later electrical use. For the purposes of this paragraph:
   (a) "Electric utility scale" means a person that is engaged in a business activity described in section 42-5063, subsection A or such person's equipment or wholesale electricity suppliers.
   (b) "Energy storage" means commercially available technology for electric utility scale that is capable of absorbing energy, storing energy for a period of time and thereafter dispatching the energy and that uses mechanical, chemical or thermal processes to store energy.
   (c) "Machinery and equipment used directly" means all machinery and equipment that are used for electric energy storage from the point of receipt of such energy in order to facilitate storage of the electric energy to the point where the electric energy is released.

23. The gross proceeds of sales or gross income derived from a contract to install containment structures. For the purposes of this paragraph, "containment structure" means a structure that prevents, monitors, controls or reduces noxious or harmful discharge into the environment.

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

C. A city, town or other taxing jurisdiction shall not levy a transaction privilege, sales, gross receipts, use, franchise or other similar tax or fee, however denominated, on gross proceeds of sales or gross income derived from any of the following:
   1. A motor carrier's use on the public highways in this state if the motor carrier is subject to a fee prescribed in title 28, chapter 16, article 4.
   2. Leasing, renting or licensing a motor vehicle subject to and on which the fee has been paid under title 28, chapter 16, article 4.
   3. The sale of a motor vehicle and any repair and replacement parts and tangible personal property becoming a part of such motor vehicle to a
motor carrier who is subject to a fee prescribed in title 28, chapter 16, article 4 and who is engaged in the business of leasing, renting or licensing such property.

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

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

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

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

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

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

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

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

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

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

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

1. A manufacturer's cash rebate on the sales price of a motor vehicle if the buyer assigns the buyer's right in the rebate to the retailer.
2. The waste tire disposal fee imposed pursuant to section 44-1302.

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

G. A city, town or taxing jurisdiction shall not levy a transaction privilege, sales, gross receipts, use, franchise or other similar tax or fee, however denominated, on gross proceeds of sales or gross income derived from over-the-top services. For the purposes of this subsection, "over-the-top services" means audio or video programming services that are received by the purchaser by means of an internet connection, regardless of the technology used, that include linear or live programming and that are generally considered comparable to programming provided by a radio or television broadcast station and includes related on-demand programming that is provided at no additional charge, regardless of whether the services are provided independently or packaged with other audio or video programming.

H. For the purposes of this section:

1. "Cable operator" has the same meaning prescribed in section 9-505 and includes a video service provider.
2. "Electrical services" means transmitting or distributing electricity, electric lights, current or power over lines, wires or cables.
3. "Telecommunication services" means transmitting or relaying sound, visual image, data, information, images or material over lines, wires or cables by radio signal, light beam, telephone, telegraph or other electromagnetic means.
4. "Utility pole" means any wooden, metal or other pole used for utility purposes and the pole's appurtenances that are attached or authorized for attachment by the person controlling the pole.

Sec. 13. Section 42-6004, Arizona Revised Statutes, as amended by Laws 2021, chapter 417, section 11, is amended to read:

42-6004. Exemption from municipal tax; definitions

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

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

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

3. Sales of warranty or service contracts.

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

5. Interest on finance contracts.

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

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

8. Sales of internet access services to the person's subscribers and customers. For the purposes of this paragraph:
   (a) "Internet" means the computer and telecommunications facilities that comprise the interconnected worldwide network of networks that employ the transmission control protocol or internet protocol, or any predecessor or successor protocol, to communicate information of all kinds by wire or radio.
   (b) "Internet access" means a service that enables users to access content, information, electronic mail or other services over the internet. Internet access does not include telecommunication services provided by a common carrier.

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

10. Leasing real property between affiliated companies, businesses, persons or reciprocal insurers. For the purposes of this paragraph:
   (a) "Affiliated companies, businesses, persons or reciprocal insurers" means the lessor holds a controlling interest in the lessee, the lessee holds a controlling interest in the lessor, affiliated persons hold a controlling interest in both the lessor and the lessee, or an unrelated person holds a controlling interest in both the lessor and lessee.
   (b) "Affiliated persons" means members of the individual's family or persons who have ownership or control of a business entity.
(c) "Controlling interest" means direct or indirect ownership of at least eighty percent of the voting shares of a corporation or of the interests in a company, business or person other than a corporation.

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

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

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

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

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

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

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

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

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

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

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

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

(iii) Connecting the machinery, equipment or other tangible personal property, whether as an individual item or as a system of items, to water, power, gas, communication or other services.
(iv) Stabilizing or protecting the machinery, equipment or other tangible personal property during operation by bolting, burying or performing other dissimilar nonpermanent connections to either real property or real property improvements.

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

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

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

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

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

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

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

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

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

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

17. The sale of coal.

18. Tangible personal property incorporated or fabricated into a project described in paragraph 14 of this subsection, that is located within the exterior boundaries of an Indian reservation for which the owner, as defined in section 42-5075, of the project is an Indian tribe or an affiliated Indian. For the purposes of this paragraph:
   (a) "Affiliated Indian" means an individual Native American Indian who is duly registered on the tribal rolls of the Indian tribe for whose benefit the Indian reservation was established.
   (b) "Indian reservation" means all lands that are within the limits of areas set aside by the United States for the exclusive use and occupancy of an Indian tribe by treaty, law or executive order and that are recognized as Indian reservations by the United States department of the interior.
   (c) "Indian tribe" means any organized nation, tribe, band or community that is recognized as an Indian tribe by the United States department of the interior and includes any entity formed under the laws of that Indian tribe.

19. The charges for the leasing or renting of space to make attachments to utility poles as follows:
   (a) By a person that is engaged in the business of providing or furnishing electrical services or telecommunication services or that is a cable operator.
   (b) To a person that is engaged in the business of providing or furnishing electrical services or telecommunication services or that is a cable operator.

20. Until March 1, 2017, the gross proceeds of sales or gross income derived from entry fees paid by participants for events that consist of a run, walk, swim or bicycle ride or a similar event, or any combination of these events.
21. The gross proceeds of sales or gross income derived from entry fees paid by participants for events that are operated or conducted by nonprofit organizations that are exempt from taxation under section 501(c)(3) of the internal revenue code and of which no part of the organization's net earnings inures to the benefit of any private shareholder or individual, if the event consists of a run, walk, swim or bicycle ride or a similar event, or any combination of these events.

22. The gross proceeds of sales or gross income derived from sales of machinery and equipment used directly for energy storage for later electrical use. For the purposes of this paragraph:

(a) "Electric utility scale" means a person that is engaged in a business activity described in section 42-5063, subsection A or such person's equipment or wholesale electricity suppliers.

(b) "Energy storage" means commercially available technology for electric utility scale that is capable of absorbing energy, storing energy for a period of time and thereafter dispatching the energy and that uses mechanical, chemical or thermal processes to store energy.

(c) "Machinery and equipment used directly" means all machinery and equipment that are used for electric energy storage from the point of receipt of such energy in order to facilitate storage of the electric energy to the point where the electric energy is released.

23. THE GROSS PROCEEDS OF SALES OR GROSS INCOME DERIVED FROM A CONTRACT TO INSTALL CONTAINMENT STRUCTURES. FOR THE PURPOSES OF THIS PARAGRAPH, "CONTAINMENT STRUCTURE" MEANS A STRUCTURE THAT PREVENTS, MONITORS, CONTROLS OR REDUCES NOXIOUS OR HARMFUL DISCHARGE INTO THE ENVIRONMENT.

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

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

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

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

3. The sale of a motor vehicle and any repair and replacement parts and tangible personal property becoming a part of such motor vehicle to a motor carrier who is subject to a fee prescribed in title 28, chapter 16, article 4 and who is engaged in the business of leasing, renting or licensing such property.
4. Incarcerating or detaining in a privately operated prison, jail or detention facility prisoners who are under the jurisdiction of the United States, this state or any other state or a political subdivision of this state or of any other state.

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

6. Any amount attributable to development fees that are incurred in relation to the construction, development or improvement of real property and paid by the taxpayer as defined in the model city tax code or by a contractor providing services to the taxpayer. For the purposes of this paragraph:
   (a) The attributable amount shall not exceed the value of the development fees actually imposed.
   (b) The attributable amount is equal to the total amount of development fees paid by the taxpayer or by a contractor providing services to the taxpayer and the total development fees credited in exchange for the construction of, contribution to or dedication of real property for providing public infrastructure, public safety or other public services necessary to the development. The real property must be the subject of the development fees.
   (c) "Development fees" means fees imposed to offset capital costs of providing public infrastructure, public safety or other public services to a development and authorized pursuant to section 9-463.05, section 11-1102 or title 48 regardless of the jurisdiction to which the fees are paid.

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

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

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

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

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

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

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

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

G. A city, town or taxing jurisdiction shall not levy a transaction privilege, sales, gross receipts, use, franchise or other similar tax or fee, however denominated, on gross proceeds of sales or gross income derived from over-the-top services. For the purposes of this subsection, "over-the-top services" means audio or video programming services that are received by the purchaser by means of an internet connection, regardless of the technology used, that include linear or live programming and that are generally considered comparable to programming provided by a radio or television broadcast station and includes related on-demand programming that is provided at no additional charge, regardless of whether the services are provided independently or packaged with other audio or video programming.

H. For the purposes of this section:

1. "Cable operator" has the same meaning prescribed in section 9-505 and includes a video service provider.

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

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

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

Sec. 14. Title 43, chapter 2, article 1, Arizona Revised Statutes, is amended by adding section 43-212, to read:

43-212. Individual income tax model; fiscal impact requests; staff access

A. THE DEPARTMENT SHALL MAINTAIN AN INDIVIDUAL INCOME TAX MODEL THAT ESTIMATES THE FISCAL IMPACT OF PROPOSED INDIVIDUAL INCOME TAX LEGISLATION.
THE INDIVIDUAL INCOME TAX MODEL SHALL:

1. AT A MINIMUM, ALLOW FOR THE ADJUSTMENT OF INDIVIDUAL INCOME TAX
   LAW PARAMETERS AGAINST AN ANONYMIZED REPRESENTATIVE SAMPLE OF INDIVIDUAL
   INCOME TAX RETURNS.

2. INCLUDE PROCEDURES TO PROTECT TAXPAYER CONFIDENTIALITY UNDER
   APPLICABLE STATE AND FEDERAL LAW.

C. THE DEPARTMENT SHALL ACCEPT REQUESTS FROM THE JOINT LEGISLATIVE
   BUDGET COMMITTEE STAFF AND LEGISLATIVE STAFF FOR ESTIMATES OF THE FISCAL
   IMPACT OF PROPOSED INDIVIDUAL INCOME TAX LEGISLATION USING THE INDIVIDUAL
   INCOME TAX MODEL. THE DEPARTMENT SHALL FULFILL ANY REQUEST UNDER THIS
   SUBSECTION IN A PROMPT AND TIMELY MANNER.

D. ON COMPLETION OF THE INTEGRATED TAX SYSTEM MODERNIZATION PROJECT
   DEVELOPED PURSUANT TO SECTION 42-5041, THE INDIVIDUAL INCOME TAX MODEL
   REQUIRED BY THIS SECTION SHALL PROVIDE DEPARTMENT STAFF, JOINT LEGISLATIVE
   BUDGET COMMITTEE STAFF AND THE GOVERNOR'S OFFICE OF STRATEGIC PLANNING AND
   BUDGETING STAFF DIRECT ACCESS TO THE INDIVIDUAL INCOME TAX MODEL SO THAT
   INDIVIDUAL INCOME TAX LAW PARAMETERS MAY BE INTERACTIVELY ADJUSTED TO
   DEVELOP IMMEDIATE FISCAL IMPACT ESTIMATES WITHOUT ANY ADDITIONAL
   PROGRAMMING REQUIRED FOR EACH ESTIMATE.

Sec. 15. Section 43-1014, Arizona Revised Statutes, is amended to read:

43-1014. Entity-level tax election; partnerships; S corporations; rules
A. For taxable years beginning from and after December 31, 2021,
the partners or shareholders of a business that is treated as a
partnership or S corporation for federal income tax purposes may consent

to be taxed at the entity level at a TAX rate of four and one-half percent

of THAT IS THE SAME AS THE TAX RATE PRESCRIBED BY SECTION 43-1011
APPLICABLE TO the entire portion of its taxable income that is
attributable to its resident partners or shareholders and the portion of
its taxable income derived from sources within this state that is
attributable to its nonresident partners or shareholders for that taxable
year. The election under this subsection must be made on or before the
due date or extended due date of the business's return under this title.

B. If the election is made under subsection A of this section, all
of the following apply:

1. The taxable income of the partnership or S corporation shall be
computed under this chapter or chapter 14 of this title, as applicable.

2. If the partnership or S corporation does not pay the amount owed
to the department as a result of the election under this section, the
department may collect the amount from the partners or shareholders based
on the proportionate share of income that is attributable to each partner
or shareholder for Arizona tax purposes.

3. The partnership or S corporation shall pay estimated tax
pursuant to section 43-581 as necessary.
C. The election under subsection A of this section does not apply to the following:

1. Partners or shareholders that are not individuals, estates or trusts. The portion of the taxable income attributable to a partner or shareholder that is not an individual, estate or trust is not included in the entity-level tax under subsection A of this section.

2. Partners or shareholders who are individuals, estates or trusts and who opt out or waive the right to opt out of the election pursuant to subsection D of this section. The portion of the taxable income attributable to a partner or shareholder who is an individual, estate or trust and who opts out or waives the right to opt out of the election pursuant to subsection D of this section is not included in the entity-level tax under subsection A of this section.

D. A partnership or S corporation that intends to make the election under subsection A of this section shall notify all partners or shareholders who are individuals, estates or trusts of the intent to make the election and that each partner or shareholder who is an individual, estate or trust has the right to opt out of the election. The notice shall allow each partner or shareholder who is an individual, estate or trust at least sixty days after receiving the notice to notify the partnership or S corporation that the partner or shareholder who is an individual, estate or trust is exercising the partner's or shareholder's right to opt out of the election. If the partner or shareholder who is an individual, estate or trust does not respond within the sixty-day period or waives the right to opt out, the partner or shareholder will be included in the election.

E. The department shall adopt rules and prescribe forms and procedures as necessary to administer this section.

Sec. 16. Laws 2021, chapter 412, section 26 is amended to read:

Sec. 26. Refunds

Any claim for refund of transaction privilege or use tax based on the retroactive application of section 42-5061, subsection B, paragraph 18, Arizona Revised Statutes, as amended by this act, and LAWS 2021, CHAPTER 412, SECTION 42-5061, SUBSECTION B, PARAGRAPH 19, ARIZONA REVISED STATUTES, AS AMENDED BY THIS ACT, SECTION 42-5075, SUBSECTION B, PARAGRAPH 21, ARIZONA REVISED STATUTES, AS ADDED BY THIS ACT, section 42-5159, subsection B, paragraph 18, Arizona Revised Statutes, as amended by this act, LAWS 2021, CHAPTER 412, SECTION 42-5159, SUBSECTION B, PARAGRAPH 19, ARIZONA REVISED STATUTES, AS AMENDED BY THIS ACT, AND SECTION 42-6004, SUBSECTION A, PARAGRAPH 23, ARIZONA REVISED STATUTES, AS ADDED BY THIS ACT, shall be submitted to the department of revenue on or before December 31, 2021 2022, pursuant to section 42-1118, Arizona Revised Statutes, and is subject to the following:

1. A failure to file such a claim on or before December 31, 2021 2022 constitutes a waiver of the claim for refund.
2. The aggregate refund amount may not exceed $10,000 for such claims filed from and after December 31, 2021 through December 31, 2022.

3. If the aggregate refund amount of such claims ultimately determined to be correct is more than $10,000, the department of revenue shall reduce each claim proportionally so that the aggregate refund amount equals $10,000.

4. Interest is not allowed and may not be compounded on any refundable amount of such claims if paid before July 1, 2023, but if the amount cannot be determined or paid until after June 30, 2023, interest accrues after that date pursuant to section 42-1123, Arizona Revised Statutes.

5. Any refund claim that is filed before January 1, 2022 or that is not related to the changes under this act is not subject to the $10,000 aggregate refund amount.

Sec. 17. Laws 2021, chapter 412, section 30 is amended to read:

Sec. 30. Retroactivity

A. SECTION 42-5075, ARIZONA REVISED STATUTES, AS AMENDED BY THIS ACT, section 42-5159, SUBSECTION B, PARAGRAPH 18, Arizona Revised Statutes, AS AMENDED BY LAWS 2021, CHAPTER 412, SECTION 42-5159, SUBSECTION B, PARAGRAPH 19, ARIZONA REVISED STATUTES, as amended by this act, section 42-5061, as amended by Laws 2019, chapter 273, section 7 and chapter 288, section 1, SUBSECTION B, PARAGRAPH 18, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 412, SECTION 42-5061, SUBSECTION B, PARAGRAPH 19, ARIZONA REVISED STATUTES, AS AMENDED BY THIS ACT, AND SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 417, SECTION 10 and this act, apply retroactively to taxable periods beginning from and after December 31, 2015.

B. Section 43-1122, Arizona Revised Statutes, as amended by this act LAWS 2021, CHAPTER 412, applies retroactively to taxable years beginning from and after December 31, 2020.

C. Section 43-1022, Arizona Revised Statutes, as amended by this act LAWS 2021, CHAPTER 412, sections 43-1076.01 and 43-1162, Arizona Revised Statutes, as added by this act LAWS 2021, CHAPTER 412, and sections 43-1504 and 43-1603, Arizona Revised Statutes, as amended by this act LAWS 2021, CHAPTER 412, apply retroactively to taxable years beginning from and after December 31, 2020.

D. Section 43-1184, Arizona Revised Statutes, as amended by this act LAWS 2021, CHAPTER 412, applies retroactively to from and after June 30, 2021.

Sec. 18. Legislative intent

The legislature intends:

1. That in fiscal year 2022-2023 the fee prescribed in section 42-5041, subsection B, Arizona Revised Statutes, as added by this act, be assessed and collected pursuant to the following guidelines:
(a) The total amount of fees for all counties, cities, towns, councils of governments and regional transportation authorities may not exceed $5,388,200 in fiscal year 2022-2023.

(b) The share of fees assessed to all counties pursuant to subdivision (a) of this paragraph shall be in proportion to the aggregate amount of monies distributed to counties for the fiscal year two years preceding the current fiscal year pursuant to sections 42-5029, 42-5029.01, 42-6103, 42-6103.01, 42-6107, 42-6107.01, 42-6108, 42-6108.01, 42-6109, 42-6109.01, 42-6110, 42-6111, 42-6112 and 42-6113, Arizona Revised Statutes, as a percentage of aggregate distributions to all counties, cities, towns, councils of governments and regional transportation authorities located in a county with a population of more than eight hundred thousand persons for the fiscal year two years preceding the current fiscal year pursuant to sections 42-5029, 42-5029.01, 42-6001, 42-6103, 42-6103.01, 42-6105, 42-6106, 42-6107, 42-6107.01, 42-6108, 42-6108.01, 42-6109, 42-6109.01, 42-6110, 42-6111, 42-6112, 42-6113 and 43-206, Arizona Revised Statutes.

(c) The share of fees assessed to all cities and towns pursuant to subdivision (a) of this paragraph shall be in proportion to the aggregate amount of monies distributed to cities and towns for the fiscal year two years preceding the current fiscal year pursuant to sections 42-5029, 42-6001 and 43-206, Arizona Revised Statutes, as a percentage of aggregate distributions to all counties, cities, towns, councils of governments and regional transportation authorities located in a county with a population of more than eight hundred thousand persons for the fiscal year two years preceding the current fiscal year pursuant to sections 42-5029, 42-5029.01, 42-6001, 42-6103, 42-6103.01, 42-6105, 42-6106, 42-6107, 42-6107.01, 42-6108, 42-6108.01, 42-6109, 42-6109.01, 42-6110, 42-6111, 42-6112, 42-6113 and 43-206, Arizona Revised Statutes.

(d) The share of fees assessed to all councils of governments pursuant to subdivision (a) of this paragraph shall be in proportion to the aggregate amount of monies distributed to all councils of governments for the fiscal year two years preceding the current fiscal year pursuant to section 42-6105, Arizona Revised Statutes, as a percentage of aggregate distributions to all counties, cities, towns, councils of governments and regional transportation authorities located in a county with a population of more than eight hundred thousand persons for the fiscal year two years preceding the current fiscal year pursuant to sections 42-5029, 42-5029.01, 42-6001, 42-6103, 42-6103.01, 42-6105, 42-6106, 42-6107, 42-6107.01, 42-6108, 42-6108.01, 42-6109, 42-6109.01, 42-6110, 42-6111, 42-6112, 42-6113 and 43-206, Arizona Revised Statutes.

(e) The share of fees assessed to all regional transportation authorities located in a county with a population of more than eight hundred thousand persons pursuant to subdivision (a) of this paragraph shall be in proportion to the aggregate amount of monies distributed to all regional transportation authorities located in a county with a
population of more than eight hundred thousand persons for the fiscal year
two years preceding the current fiscal year pursuant to section 42-6106,
Arizona Revised Statutes, as a percentage of aggregate distributions to
all counties, cities, towns, councils of governments and regional
transportation authorities located in a county with a population of more
than four hundred thousand persons for the fiscal year two years preceding
the current fiscal year pursuant to sections 42-5029, 42-6001, 42-6103,
42-6105, 42-6106, 42-6107, 42-6108, 42-6108.01, 42-6109, 42-6109.01,

(f) Except as provided by sections 42-5033 and 42-5033.01, Arizona
Revised Statutes, the population of a county as determined by the most
recent United States decennial census plus any revision to the decennial
census certified by the United States census bureau shall be used as the
basis for apportioning monies pursuant to subdivision (b) of this
paragraph.

(g) Except as provided by sections 42-5033 and 42-5033.01, Arizona
Revised Statutes, the population of a city or town as determined by the
most recent United States decennial census plus any revision to the
decennial census certified by the United States census bureau shall be
used as the basis for apportioning monies pursuant to subdivision (c) of
this paragraph.

2. That in fiscal year 2022-2023 the transfer prescribed in section
42-5041, subsection E, Arizona Revised Statutes, as added by this act, not
exceed $653,400.

3. That in fiscal year 2022-2023 the transfer prescribed in section
42-5041, subsection F, Arizona Revised Statutes, as added by this act, not
exceed $145,500.

Sec. 19. Aircraft taxation; market value; department of
transportation; registration credit

If a person pays an aircraft's annual license tax in fiscal year
2021-2022 before the effective date of this act and the aircraft's average
fair market value has an annual percentage change that is more than the
annual percentage change in the average consumer price index as published
by the United States department of labor, bureau of labor statistics,
using 2019 as a benchmark to what the average fair market value of the
aircraft was in 2019, the department of transportation shall offer the
person a credit to be applied toward the aircraft's registration fees in
fiscal year 2022-2023. The credit shall be the difference between the
amount that the person paid based on the aircraft's actual average fair
market value and the amount that the person would have paid based on the
aircraft's consumer price index adjusted fair market value as described by
section 28-8335, subsection B, Arizona Revised Statutes, as amended by
this act.
Sec. 20. **Distribution of revenues; border security fund; state highway fund; state aviation fund; state parks revenue fund; intent**

A. For fiscal year 2022-2023, beginning the month following the general effective date of this act, the state treasurer shall distribute the following amounts proportionately for each month remaining in the fiscal year from the portion of the revenues derived from the tax levied by title 42, chapter 5, articles 1 and 5, Arizona Revised Statutes, that is not designated as the distribution base:

1. $209,205,000 to the border security fund established by section 26-105, Arizona Revised Statutes.
2. $925,447,500 to the state highway fund established by section 28-6991, Arizona Revised Statutes.
3. $20,600,000 to the state aviation fund established by section 28-8202, Arizona Revised Statutes.
4. $425,000,000 to the budget stabilization fund established by section 35-144, Arizona Revised Statutes.
5. $38,237,100 to the state parks revenue fund established by section 41-511.21, Arizona Revised Statutes.

B. It is the intent of the legislature that the distributions made in subsection A of this section will not impact the portion of transaction privilege tax revenues that cities and counties in this state receive pursuant to section 42-5029, subsection D, Arizona Revised Statutes.

Sec. 21. **Fiscal year 2022-2023 state general fund determination**

A. For the purposes of determining whether the threshold in section 43-243, subsection B, paragraph 2, Arizona Revised Statutes, and section 43-244, subsection B, paragraph 2, Arizona Revised Statutes, is met for fiscal year 2022-2023, the director of the joint legislative budget committee and the director of the governor's office of strategic planning and budgeting shall:

1. Determine the total amount of revenues from the portion of the revenues derived from the tax levied by title 42, chapter 5, articles 1 and 5, Arizona Revised Statutes, that are not designated as the distribution base and that are directly distributed to the following funds in fiscal year 2022-2023:
   (a) The border security fund established by section 26-105, Arizona Revised Statutes.
   (b) The state highway fund established by section 28-6991, Arizona Revised Statutes.
   (c) The state aviation fund established by section 28-8202, Arizona Revised Statutes.
   (d) The budget stabilization fund established by section 35-144, Arizona Revised Statutes.
   (e) The state parks revenue fund established by section 41-511.21, Arizona Revised Statutes.
(f) The water supply development revolving fund established by section 49-1271, Arizona Revised Statutes.

(g) The long-term water augmentation fund established by section 49-1302, Arizona Revised Statutes.

2. Add the dollar amount determined pursuant to paragraph 1 of this subsection to the actual amount of fiscal year 2022-2023 state general fund revenue reported, excluding the beginning balance.

B. If the dollar amount determined pursuant to subsection A of this section for fiscal year 2022-2023 is equal to or exceeds the dollar amount prescribed by section 43-243, subsection B, paragraph 2, Arizona Revised Statutes, and section 43-244, subsection B, paragraph 2, Arizona Revised Statutes, the threshold is met and the director of the joint legislative budget committee and the director of the governor's office of strategic planning and budgeting shall notify the department of revenue as prescribed by section 43-243, Arizona Revised Statutes, and section 43-244, Arizona Revised Statutes.

Sec. 22. Applicability

Except as provided in section 24 of this act, section 42-5061, subsection B, paragraph 14, Arizona Revised Statutes, as amended by this act, section 42-5071, Arizona Revised Statutes, as amended by this act, and section 42-5159, subsection B, paragraph 14, Arizona Revised Statutes, as amended by this act, apply to taxable periods beginning on or after the first day of the month following the general effective date.

Sec. 23. Retroactivity

Section 28-8335, Arizona Revised Statutes, as amended by this act, applies retroactively to from and after June 30, 2021.

Sec. 24. Conditional enactment; applicability; retroactivity

Section 42-5061, Arizona Revised Statutes, as amended by Laws 2021, chapter 266, section 4, chapter 412, section 8, chapter 417, section 5, chapter 443, section 3 and this act, and section 42-6004, Arizona Revised Statutes, as amended by Laws 2021, chapter 417, section 11 and this act, become effective on the date prescribed by Laws 2018, chapter 263, section 5 and apply as follows but only on the occurrence of the condition prescribed by Laws 2018, chapter 263, section 5:

1. For section 42-5061, subsection B, paragraph 14, Arizona Revised Statutes, as amended by this act, to taxable periods beginning on or after the first day of the month following the general effective date of this act.

2. For section 42-5061, subsection B, paragraph 19, Arizona Revised Statutes, as amended by this act, and section 42-6004, Arizona Revised Statutes, as amended by Laws 2021, chapter 417, section 11 and this act, retroactively to taxable periods beginning from and after December 31, 2015.