REFERENCES TITLE: renewable energy storage equipment; valuation

State of Arizona
House of Representatives
Fifty-fifth Legislature
First Regular Session
2021

HB 2153

Introduced by
Representatives Dunn: Cobb, Cook

AN ACT

AMENDING SECTIONS 9-499.14, 11-254.07 AND 42-5009, ARIZONA REVISED STATUTES; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2019, CHAPTER 273, SECTION 7 AND CHAPTER 288, SECTION 1; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2019, CHAPTER 273, SECTION 8 AND CHAPTER 288, SECTION 2; AMENDING SECTIONS 42-5064, 42-5071, 42-5075 AND 42-5159, ARIZONA REVISED STATUTES; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2019, CHAPTER 163, SECTION 23 AND CHAPTER 189, SECTION 3; AMENDING SECTION 42-6004, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2019, CHAPTER 163, SECTION 24 AND CHAPTER 189, SECTION 4; AMENDING SECTIONS 42-14151 AND 42-14155, ARIZONA REVISED STATUTES; RELATING TO RENEWABLE ENERGY EQUIPMENT.

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

Section 1. Section 9-499.14, Arizona Revised Statutes, is amended to read:

9-499.14. Renewable energy incentive districts; definition
A. The governing body of a city or town may designate a renewable energy incentive district in an area in the city or town if all of the following apply:
1. The proposed district consists of a vacant or underused parcel of property, or any other parcel or parcels of property the governing body deems suitable for renewable energy and storage equipment, that are appropriate sizes for the construction and operation of renewable energy and storage equipment. The governing body may designate portions of land or noncontiguous portions of land as a renewable energy incentive district or districts.
2. The proposed district is located within an area of the city or town so that the construction and operation of renewable energy and storage equipment would not be incompatible with other uses of property in the area considering factors relating to the construction and operation of renewable energy and storage equipment, including:
   (a) The ability to adequately buffer the district from surrounding incompatible uses.
   (b) The noise level emanating from the district alone and in relation to ambient noise levels at the perimeter of the property falling within the proposed district and relative to other adjacent lands.
   (c) The extent to which the district would be located in proximity to existing transportation and electrical transmission corridors.
   (d) Compatibility with commercial and military air space requirements.
3. The governing body has evaluated the extent to which the proposed district is consistent with the existing general plan and has determined that the proposed district does not conflict with the plan. The governing body may determine that the district is not a major amendment to the general plan pursuant to section 9-461.06.
B. If the governing body establishes a renewable energy incentive district, it shall adopt a renewable energy incentive plan to encourage the construction and operation of renewable energy and storage equipment in the district. The plan may include:
   1. Expedited zoning or rezoning procedures.
   2. Expedited processing of plans, proposals and permits.
   3. Waivers or abatement of zoning fees, processing fees, and improvement district fees and assessments for development activities.
   4. Waiver or abatement of development standards and procedural requirements.
C. For the purposes of this section, "renewable energy and storage equipment" has the same meaning as prescribed in section 42-14155.
Sec. 2. Section 11-254.07, Arizona Revised Statutes, is amended to read:

11-254.07. Renewable energy incentive districts; definition

A. The board of supervisors may designate a renewable energy incentive district in any unincorporated area of the county if all of the following apply:

1. The proposed district consists of a vacant or underused parcel or parcels of property, or any other parcel or parcels of property the board of supervisors deems suitable for renewable energy AND STORAGE equipment, that are appropriate sizes for the construction and operation of renewable energy AND STORAGE equipment. The board of supervisors may designate large portions of unincorporated county land or noncontiguous portions of land as a renewable energy incentive district or districts.

2. The proposed district is located within an area of the county so that the construction and operation of renewable energy AND STORAGE equipment would not be incompatible with other uses of property in the area considering factors relating to the construction and operation of renewable energy AND STORAGE equipment, including:
   (a) The ability to adequately buffer the district from surrounding incompatible uses.
   (b) The noise level emanating from the district alone and in relation to ambient noise levels at the perimeter of the property falling within the proposed district and relative to other adjacent lands.
   (c) The extent to which the district would be located in proximity to existing transportation and electrical transmission corridors.
   (d) Compatibility with commercial and military air space requirements.

3. The board of supervisors has evaluated the extent to which the proposed district is consistent with the existing county comprehensive plan and has determined that the proposed district does not conflict with the plan. The board of supervisors may determine that the district is not a major amendment to the county comprehensive plan pursuant to section 11-805.

B. Before establishing a renewable energy incentive district, the board of supervisors shall:

1. Identify the boundaries of the proposed district.
2. Notify the owners of private property in the proposed district, property managers of federal and state land in the proposed district and adjacent property owners by first class mail sent to the addresses on the most recent tax roll. The notice shall be mailed at least fifteen days before the hearing held to adopt the energy incentive plan.

C. If the board of supervisors establishes a renewable energy incentive district, it shall adopt a renewable energy incentive plan to encourage the construction and operation of renewable energy AND STORAGE equipment in the district. The plan may include:
1. Expedited zoning or rezoning procedures.
2. Expedited processing of plans, proposals and permits.
3. Waivers or abatement of county zoning fees, processing fees, and county improvement district fees and assessments for development activities.
4. Waiver or abatement of development standards and procedural requirements.

D. For the purposes of this section, "renewable energy AND STORAGE equipment" has the same meaning prescribed in section 42-14155.

Sec. 3. Section 42-5009, Arizona Revised Statutes, is amended to read:

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

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

1. 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 tax base.

2. 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 appropriate deduction and the tax license number of the purchaser to the extent the deduction depends on the purchaser conducting business classified under article 2 of this chapter 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 seller has reason to believe that the information contained in the certificate is not accurate or complete.

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

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

D. If a seller is entitled to a deduction by complying with subsection A of this section, the department may require the purchaser that 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 seller 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 seller would have been required to pay under this article if the seller had not complied with subsection A 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. The amount shall be treated as tax revenues collected from the seller in order to designate the distribution base for purposes of section 42-5029.

E. If a seller is entitled to a deduction by complying with subsection B of this section, the department may require the purchaser to establish the accuracy and completeness of the information provided to the seller that entitled the seller 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 seller would have been required to pay under this article if the seller had not complied with subsection 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. The amount shall be treated as tax revenues collected from the seller in order to designate the distribution base for purposes of section 42-5029.

F. The department may prescribe a form for a certificate used to establish entitlement to the deductions described in section 42-5061, subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3. Under rules the department may prescribe, the department may also require additional information for the seller to be entitled to the deduction. If a seller is entitled to the deductions described in section 42-5061, subsection A, paragraph 46 and section 42-5063, subsection B, paragraph 3, the department may require the purchaser who executed the certificate to establish the accuracy and completeness of the information contained in the certificate that would entitle the seller 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 seller would have been required to pay under this article. Payment of the amount under this subsection exempts the purchaser from liability for any tax imposed under article 4 of this chapter. The amount shall be treated as tax revenues collected from the seller in order to designate the distribution base for purposes of section 42-5029.

G. If a seller claims a deduction under section 42-5061, subsection A, paragraph 25 and establishes entitlement to the deduction with an exemption letter that the purchaser received from the department and the exemption letter was based on a contingent event, the department may require the purchaser that received the exemption letter to establish the satisfaction of the contingent event within a reasonable time. If the purchaser cannot establish the satisfaction of the event, the purchaser is
liable in an amount equal to any tax, penalty and interest that the seller
would have been required to pay under this article if the seller had not
been furnished the exemption letter. Payment of the amount under this
subsection exempts the purchaser from liability for any tax imposed under
article 4 of this chapter. The amount shall be treated as tax revenues
collected from the seller in order to designate the distribution base for
purposes of section 42-5029. For the purposes of this subsection,
"reasonable time" means a time limitation that the department determines
and that does not exceed the time limitations pursuant to section 42-1104.

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

1. A valid certificate as prescribed by this subsection completed
by the purchaser and obtained prior to the issuance of the nonresident
registration permit authorized by section 28-2154.
2. A copy of the nonresident registration permit authorized by
section 28-2154.
3. A legible copy of a current valid driver license issued to the
purchaser by another state or foreign country that indicates an address
outside of this state. For the sale of a motor vehicle to a nonresident
entity, the entity's representative must have a current valid driver
license issued by the same jurisdiction as that in which the entity is
located.
4. For the purposes of the deduction provided by section 42-5061,
subsection A, paragraph 14, a certificate documenting the delivery of the
motor vehicle to an out-of-state location.

I. Notwithstanding subsection A, paragraph 2 of this section, if a
motor vehicle dealer has established entitlement to a deduction by
complying with subsection H of this section, the department may require
the purchaser who executed the certificate to establish the accuracy and
completeness of the information contained in the certificate that entitled
the motor vehicle dealer 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
motor vehicle dealer would have been required to pay under this article
and under articles IV and V of the model city tax code as defined in
section 42-6051. Payment of the amount under this subsection exempts the
purchaser from liability for any tax imposed under article 4 of this
chapter and any tax imposed under article VI of the model city tax code as
defined in section 42-6051. The amount shall be treated as tax revenues
collected from the motor vehicle dealer in order to designate the distribution base for purposes of section 42-5029.

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

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

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

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

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

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

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

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

1. Persons who feed their own livestock or poultry.
2. Persons who are engaged in the business of producing livestock or poultry commercially.
3. Persons who are engaged in the business of feeding livestock or poultry commercially or who board livestock noncommercially.

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

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

Q. The department shall prescribe the form of a certificate to be used by a person purchasing an aircraft to document eligibility for a deduction pursuant to section 42-5061, subsection B, paragraph 8, subdivision (a), item (v) or an exemption pursuant to section 42-5159, subsection B, paragraph 8, subdivision (a), item (v), relating to aircraft. The person must provide this certificate and documentation confirming that the operational control of the aircraft has been transferred or will be transferred immediately after the purchase to one or more persons described in section 42-5061, subsection B, paragraph 8, subdivision (a), item (i), (ii), (iii) or (iv) or section 42-5159, subsection B, paragraph 8, subdivision (a), item (i), (ii), (iii) or (iv). Operational control of the aircraft must be transferred for at least fifty percent of the aircraft's flight hours. If such operational control is not transferred for at least fifty percent of the aircraft's
flight hours during the recapture period, the owner of the aircraft is liable for an amount equal to any tax that the seller or purchaser would have been required to pay under this chapter at the time of the sale, plus penalty and interest. The recapture period begins on the date that operational control of the aircraft is first transferred and ends on the later of the date the aircraft is fully depreciated for federal income tax purposes or five years after operational control was first transferred. For the purposes of this subsection, operational control of the aircraft must be within the meaning of federal aviation administration operations specification A008, or its successor, except that:

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

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

Sec. 4. Section 42-5061, Arizona Revised Statutes, as amended by Laws 2019, chapter 273, section 7 and chapter 288, section 1, is amended to read:

42-5061. Retail classification; definitions

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

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

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

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

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

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

7. The sale of stocks and bonds.

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

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

10. Insulin, insulin syringes and glucose test strips.

11. Prescription eyeglasses or contact lenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

42. Sales of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Tangible personal property sold to persons engaged in business
classified under the telecommunications classification, including a person
representing or working on behalf of such a person in a manner described
in section 42-5075, subsection 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 THE
PERSON'S EQUIPMENT 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 FROM THE GRID IN ORDER TO FACILITATE STORAGE OF THE ELECTRIC ENERGY TO THE POINT WHERE ELECTRIC ENERGY IS RELEASED TO THE GRID.

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, 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.

(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 16 of this subsection, of semiconductor products. For the purposes of this paragraph, "clean room" means all property that comprises or creates an environment where humidity, temperature, particulate matter and contamination are precisely controlled within specified parameters, without regard to whether the property is actually contained within that environment or whether any of the property is affixed to or incorporated into real property. Clean room:

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

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

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

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

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

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

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

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

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

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

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

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

2. Janitorial equipment and hand tools.

3. Office equipment, furniture and supplies.

4. Tangible personal property used in selling or distributing activities, other than the telecommunications transmissions described in subsection B, paragraph 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 the performance of a contract.

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

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

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

G. If a person is engaged in the business of selling tangible personal property at both wholesale and retail, the tax under this section applies only to the gross proceeds of the sales made other than at wholesale if the person's books are kept so as to show separately the
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 \( \text{15} \), subdivision (b) of this section, the department may require the purchaser to establish that the requirements of subsection B, paragraph \( \text{15} \), subdivision (b) of this section have been satisfied. If the purchaser cannot establish that the requirements of subsection B, paragraph \( \text{15} \), subdivision (b) of this section have been satisfied, the purchaser is liable in an amount equal to any tax, penalty and interest that the seller would have been required to pay under article 1 of this chapter if the seller had not made a deduction pursuant to subsection B, paragraph \( \text{15} \), subdivision (b) of this section. Payment of the amount under this subsection exempts the purchaser from liability for any tax imposed under article 4 of this chapter and related to the tangible personal property purchased. The amount shall be treated as transaction privilege tax to the purchaser and as tax revenues collected from the seller to designate the distribution base pursuant to section 42-5029.

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

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

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

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

V. For the purposes of this section:

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

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

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

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

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

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

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

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

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

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

Sec. 5. Section 42-5061, Arizona Revised Statutes, as amended by Laws 2019, chapter 273, section 8 and chapter 288, section 2, is amended to read:

42-5061. Retail classification; definitions
A. The retail classification is comprised of the business of selling tangible personal property at retail. The tax base for the retail classification is the gross proceeds of sales or gross income derived from the business. The tax imposed on the retail classification does not apply to the gross proceeds of sales or gross income from:
1. Professional or personal service occupations or businesses that involve sales or transfers of tangible personal property only as inconsequential elements.
2. Services rendered in addition to selling tangible personal property at retail.
3. Sales of warranty or service contracts. The storage, use or consumption of tangible personal property provided under the conditions of such contracts is subject to tax under section 42-5156.
4. Sales of tangible personal property by any nonprofit organization organized and operated exclusively for charitable purposes and recognized by the United States internal revenue service under section 501(c)(3) of the internal revenue code.
5. Sales to persons engaged in business classified under the restaurant classification of articles used by human beings for food, drink or condiment, whether simple, mixed or compounded.
6. Business activity that is properly included in any other business classification that is taxable under this article.
7. The sale of stocks and bonds.
8. Drugs and medical oxygen, including delivery hose, mask or tent, regulator and tank, on the prescription of a member of the medical, dental or veterinarian profession who is licensed by law to administer such substances.
9. Prosthetic appliances as defined in section 23-501 and as prescribed or recommended by a health professional who is licensed pursuant to title 32, chapter 7, 8, 11, 13, 14, 15, 16, 17 or 29.
10. Insulin, insulin syringes and glucose test strips.
11. Prescription eyeglasses or contact lenses.
12. Hearing aids as defined in section 36-1901.
13. Durable medical equipment that has a centers for medicare and medicaid services common procedure code, is designated reimbursable by medicare, is prescribed by a person who is licensed under title 32, chapter 7, 8, 13, 14, 15, 17 or 29, can withstand repeated use, is primarily and customarily used to serve a medical purpose, is generally not useful to a person in the absence of illness or injury and is appropriate for use in the home.
14. Sales of motor vehicles to nonresidents of this state for use outside this state if the motor vehicle dealer ships or delivers the motor vehicle to a destination out of this state.
15. Food, as provided in and subject to the conditions of article 3 of this chapter and sections 42-5074 and 42-6017.
16. Items purchased with United States department of agriculture coupons issued under the supplemental nutrition assistance program pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703; 7 United States Code sections 2011 through 2036b) by the United States department of agriculture food and nutrition service or food instruments issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code section 1786).
17. Textbooks by any bookstore that are required by any state university or community college.
18. Food and drink to a person that is engaged in a business that is classified under the restaurant classification and that provides such food and drink without monetary charge to its employees for their own consumption on the premises during the employees' hours of employment.
19. Articles of food, drink or condiment and accessory tangible personal property to a school district or charter school if such articles and accessory tangible personal property are to be prepared and served to persons for consumption on the premises of a public school within the district or on the premises of the charter school during school hours.
20. Lottery tickets or shares pursuant to title 5, chapter 5.1, article 1.
21. The sale of cash equivalents and the sale of precious metal bullion and monetized bullion to the ultimate consumer, but the sale of coins or other forms of money for manufacture into jewelry or works of art is subject to the tax and the gross proceeds of sales or gross income derived from the redemption of any cash equivalent by the holder as a means of payment for goods or services that are taxable under this article is subject to the tax. For the purposes of this paragraph:
   (a) "Cash equivalents" means items or intangibles, whether or not negotiable, that are sold to one or more persons, through which a value denominated in money is purchased in advance and may be redeemed in full.
or in part for tangible personal property, intangibles or services. Cash equivalents include gift cards, stored value cards, gift certificates, vouchers, traveler's checks, money orders or other instruments, orders or electronic mechanisms, such as an electronic code, personal identification number or digital payment mechanism, or any other prepaid intangible right to acquire tangible personal property, intangibles or services in the future, whether from the seller of the cash equivalent or from another person. Cash equivalents do not include either of the following:

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

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

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

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

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

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

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

25. Tangible personal property sold to:

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

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

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

(d) A qualifying community health center as defined in section 42-5001.
(e) A nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code and that regularly serves meals to the needy and indigent on a continuing basis at no cost.

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

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

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

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

27. Tangible personal property sold to:

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

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

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

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

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

28. The sale of a motor vehicle to:

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

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

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

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

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

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

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

(b) Except for use in commercially producing industrial hemp as defined in section 3-311, does not include any propagative materials used in producing any part, including seeds, of any plant of the genus cannabis.
34. Machinery, equipment, technology or related supplies that are only useful to assist a person with a physical disability as defined in section 46-191 or a person who has a developmental disability as defined in section 36-551 or has a head injury as defined in section 41-3201 to be more independent and functional.

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

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

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

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

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

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

40. Sales of food, drink and condiment for consumption within the
premises of any prison, jail or other institution under the jurisdiction
of the state department of corrections, the department of public safety,
the department of juvenile corrections or a county sheriff.
41. A motor vehicle and any repair and replacement parts and
tangible personal property becoming a part of such motor vehicle sold to a
motor carrier who is subject to a fee prescribed in title 28, chapter
16, article 4 and is engaged in the business of leasing or
renting such property.
42. Sales of:
(a) Livestock and poultry to persons engaging in the businesses of
farming, ranching or producing livestock or poultry.
(b) Livestock and poultry feed, salts, vitamins and other additives
for livestock or poultry consumption that are sold to persons for use or
consumption by their own livestock or poultry, for use or consumption in
the businesses of farming, ranching and producing or feeding livestock,
poultry, or livestock or poultry products or for use or consumption in
noncommercial boarding of livestock. For the purposes of this paragraph,
"poultry" includes ratites.
43. Sales of implants used as growth promotants and injectable
medicines, not already exempt under paragraph 8 of this subsection, for
livestock or poultry owned by or in possession of persons who are
engaged in producing livestock, poultry, or livestock or poultry products
or who are engaged in feeding livestock or poultry commercially. For
the purposes of this paragraph, "poultry" includes ratites.
44. Sales of motor vehicles at auction to nonresidents of this
state for use outside this state if the vehicles are shipped or delivered
out of this state, regardless of where title to the motor vehicles passes
or its free on board point.
45. Tangible personal property sold to a person engaged in business
and subject to tax under the transient lodging classification if the
tangible personal property is a personal hygiene item or articles used by
human beings for food, drink or condiment, except alcoholic beverages,
that are furnished without additional charge to and intended to be
consumed by the transient during the transient’s occupancy.
46. Sales of alternative fuel, as defined in section 1-215, to a
used oil fuel burner who has received a permit to burn used oil or used
oil fuel under section 49-426 or 49-480.
47. Sales of materials that are purchased by or for publicly funded
libraries, including school district libraries, charter school libraries,
community college libraries, state university libraries or federal, state, county or municipal libraries, for use by the public as follows:

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

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

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

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

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

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

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

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

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

55. Sales of repair parts installed in equipment used directly by a qualified business under section 41-1516 in harvesting, processing or transporting qualifying forest products removed from qualifying projects as defined in section 41-1516.
56. Sales or other transfers of renewable energy credits or any other unit created to track energy derived from renewable energy resources. For the purposes of this paragraph, "renewable energy credit" means a unit created administratively by the corporation commission or governing body of a public power utility to track kilowatt hours of electricity derived from a renewable energy resource or the kilowatt hour equivalent of conventional energy resources displaced by distributed renewable energy resources.

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

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

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

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

61. Sales of coal.

62. Sales of tangible personal property by a marketplace seller that are facilitated by a marketplace facilitator in which the marketplace facilitator has remitted or will remit the applicable tax to the department pursuant to section 42-5014.
B. In addition to the deductions from the tax base prescribed by subsection A of this section, the gross proceeds of sales or gross income derived from sales of the following categories of tangible personal property shall be deducted from the tax base:

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

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

3. Tangible personal property sold to persons engaged in business classified under the telecommunications classification, including a person representing or working on behalf of such a person in a manner described in section 42-5075, subsection 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 THE PERSON'S EQUIPMENT SUPPLIERS.

(b) "ENERGY STORAGE" MEANS COMMERCIALY 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 FROM THE GRID IN ORDER TO FACILITATE STORAGE OF THE ELECTRIC ENERGY TO THE POINT WHERE ELECTRIC ENERGY IS RELEASED TO THE GRID.

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

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

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

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

16. Clean rooms that are used for manufacturing, processing, fabrication or research and development, as defined in paragraph 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.

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

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

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

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.

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

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

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

2. Janitorial equipment and hand tools.

3. Office equipment, furniture and supplies.
4. Tangible personal property used in selling or distributing activities, other than the telecommunications transmissions described in subsection B, paragraph 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 the performance of a contract.

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

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

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

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

H. A person who engages in manufacturing, baling, crating, boxing, barreling, canning, bottling, sacking, preserving, processing or otherwise preparing for sale or commercial use any livestock, agricultural or horticultural product or any other product, article, substance or commodity and who sells the product of such business at retail in this state is deemed, as to such sales, to be engaged in business classified under the retail classification. This subsection does not apply to:
1. Agricultural producers who are owners, proprietors or tenants of agricultural lands, orchards, farms or gardens where agricultural products are grown, raised or prepared for market and who are marketing their own agricultural products.

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

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

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

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

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

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

   U. For the purposes of this section:

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

   2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

6. "Subcontract" means an agreement between a contractor and any person who is not an employee of the contractor for furnishing of supplies or services that, in whole or in part, are necessary to the performance of one or more government contracts, or under which any portion of the contractor's obligation under one or more government contracts is performed, undertaken or assumed and that includes provisions causing title to overhead materials or other tangible personal property used in the performance of 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. 6. Section 42-5064, Arizona Revised Statutes, is amended to read:

42-5064. Telecommunications classification; definitions
A. The telecommunications classification is comprised of the business of providing intrastate telecommunications services. The telecommunications classification does not include:

1. Sales of intrastate telecommunications services by a cable operator or by a microwave television transmission system that transmits television programming to multiple subscribers and that is operated pursuant to 47 Code of Federal Regulations parts 21 and 74.

2. Sales of internet access or application services to the person's subscribers and customers. For the purposes of this paragraph:
(a) "Application services" means software applications provided remotely using hypertext transfer protocol or another network protocol and purchased by or for any school district, charter school, community college or state university to assess or test student learning or to promote curriculum design or enhancement.

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

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

4. Over-the-top services. For the purposes of this paragraph, "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.

B. The tax base for the telecommunications classification is the gross proceeds of sales or gross income derived from the business, including the gross income derived from tolls, subscriptions and services on behalf of subscribers or from the publication of a directory of the names of subscribers. However, the gross proceeds of sales or gross income derived from the following shall be deducted from the tax base:

1. Sales of intrastate telecommunications services to:
   (a) Other persons engaged in businesses classified under the telecommunications classification for use in such business.
   (b) A direct broadcast satellite television or data transmission service that operates pursuant to 47 Code of Federal Regulations part 25 for use in its direct broadcast satellite television or data transmission operation by a facility described in section 42-5061, subsection B, paragraph 15, subdivision (b).

2. End user common line charges established by federal communications commission regulations (47 Code of Federal Regulations section 69.104(a)).

3. Carrier access charges established by federal communications commission regulations (47 Code of Federal Regulations sections 69.105(a) through 69.118).

4. Sales of direct broadcast satellite television services pursuant to 47 Code of Federal Regulations part 25 by a direct broadcast satellite
television service that operates pursuant to 47 Code of Federal Regulations part 25.

5. Telecommunications services purchased with a prepaid calling card, or a prepaid authorization number for telecommunications services, that is taxable under section 42-5061.

C. A person that is engaged in a transient lodging business subject to taxation under section 42-5070 and that provides telephone, fax or internet access services to its customers at an additional charge, which is separately stated on the customer invoice, is considered to be engaged in business subject to taxation under this section for the purposes of taxing the gross proceeds of sales or gross income derived from providing those services.

D. The gross proceeds of sales or gross income derived from a bundled transaction of services that are taxable pursuant to section 42-5023 are subject to the following:

1. A telecommunications service provider who can reasonably identify the portion of the sales price of the bundled transaction derived from charges for nontaxable services is subject to tax only on the gross proceeds of sales or gross income derived from the taxable services. For the purposes of this section, the telecommunications service provider may elect to reasonably identify the portion of the sales price of the bundled transaction derived from charges for nontaxable services by using allocation percentages derived from the telecommunications service provider's entire service area, including territories outside of this state. On request, the department may require the telecommunications service provider to provide this allocation information. The reasonableness of the allocation is subject to audit by the department.

2. Notwithstanding sections 42-1118, 42-1120 and 42-1121, the telecommunications service provider shall waive the right to file a claim for a refund of taxes paid on the bundled transaction if the taxes paid are based on the allocation percentage the telecommunications service provider had determined to be reasonable at the beginning of the tax period at issue.

3. The burden of proof is on the telecommunications service provider to establish that the gross proceeds of sales or gross income is derived from charges for nontaxable services.

E. For the purposes of this section:

1. "Bundled transaction" means a sale of multiple services in which both of the following apply:

   (a) The sale consists of both taxable and nontaxable services.

   (b) The telecommunications service provider charges a customer one sales price for all services that are sold instead of separately charging for each individual service.

2. "Cable operator" has the same meaning prescribed in section 9-505 and includes a video service provider.
3. "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.

4. "Internet access" means a service that enables users to access content, information, email or other services over the internet. Internet access does not include telecommunications services provided by a common carrier.

5. "Intrastate telecommunications services" means transmitting signs, signals, writings, images, sounds, messages, data or other information of any nature by wire, radio waves, light waves or other electromagnetic means if the information transmitted originates and terminates in this state.

6. "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. 7. 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. 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
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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. 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. "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. 8. 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 distinctly 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, 57 or 59.

(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 54 or 56.

(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 16.

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.
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 derived 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.

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.
O. 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 seven hundred fifty-thousand dollars $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 O 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.


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. 9. 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 0.

(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 0.

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 inure 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 inure to the benefit of any private shareholder or individual.

16. Drugs and medical oxygen, including delivery hose, mask or tent, regulator and tank, on the prescription of 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 the generation of power or energy solely for environmental technology
manufacturing, producing or processing or environmental protection. This
paragraph shall apply for twenty full consecutive calendar or
fiscal years from the date the first paper manufacturing machine is placed
in service. In the case of an environmental technology manufacturer,
producer or processor who does not manufacture paper, the time period

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

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

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

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

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

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

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

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

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. 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.

55. Coal acquired from an owner or operator of a power plant by 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.

56. 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.

57. 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 THE PERSON’S EQUIPMENT 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 FROM THE GRID IN ORDER TO FACILITATE STORAGE OF THE ELECTRIC ENERGY TO THE POINT WHERE ELECTRIC ENERGY IS RELEASED TO THE GRID.

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.

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

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

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

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

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

13. New machinery and equipment consisting of agricultural
aircraft, tractors, tractor-drawn implements, self-powered implements,
machinery and equipment necessary for extracting milk, and machinery and
equipment necessary for cooling milk and livestock, and drip irrigation
lines not already exempt under paragraph 6-7 of this subsection and that
are used for commercial production of 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) "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 satellite television or data transmission services during the test period were transmitted by the facility to or on behalf of those services.

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

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.

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

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

19. Machinery and equipment that are used in the commercial production of 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.

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

(a) Repair or replacement parts purchased for the machinery or equipment described in this paragraph.
(b) Machinery or equipment purchased to replace machinery or equipment for which an exemption was previously claimed and taken under this paragraph.

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

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.

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

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 tangible personal property used by a contractor in the performance of 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.

G. 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", "ancillary services", "electric distribution service", "electric generation service"
“electric transmission service” and “other services” have the same meanings prescribed in section 42-5063.

Sec. 10. Section 42-6004, Arizona Revised Statutes, as amended by Laws 2019, chapter 163, section 23 and chapter 189, section 3, is amended to read:

42-6004. Exemption from municipal tax; definitions

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 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 THE PERSON'S EQUIPMENT 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 FROM THE GRID IN ORDER TO FACILITATE STORAGE OF THE ELECTRIC ENERGY TO THE POINT WHERE ELECTRIC ENERGY IS RELEASED TO THE GRID.
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.

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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. 11. Section 42-6004, Arizona Revised Statutes, as amended by
Laws 2019, chapter 163, section 24 and chapter. 189, section 4. 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 THE PERSON'S EQUIPMENT SUPPLIERS.
   (b) "ENERGY STORAGE" MEANS COMMERCIAL 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 FROM THE GRID IN ORDER TO FACILITATE STORAGE OF THE ELECTRIC ENERGY TO THE POINT WHERE ELECTRIC ENERGY IS RELEASED TO THE GRID.

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. 12. Section 42-14151, Arizona Revised Statutes, is amended to read:

42-14151. Annual determination of valuation; definition
A. The department shall annually determine the valuation, in the manner prescribed by this article, of all property, owned or leased, and used by taxpayers in the following businesses:
1. Operation of a natural gas distribution system.
2. Operation of a water utility system.
3. Operation of a sewer system or wastewater treatment facility.
4. Operation of an electric generation facility.
5. Operation of an electric ENERGY STORAGE, transmission or distribution system.
B. For the purposes of this article, "generation of electricity" means the process of taking a source of energy, including coal, natural gas, oil, nuclear fuel or renewable sources and converting the energy into electricity to be delivered to customers through a transmission and distribution system.

Sec. 13. Section 42-14155, Arizona Revised Statutes, is amended to read:

42-14155. Valuation of renewable energy and storage equipment; definitions
A. Through December 31, 2040, the department shall determine the full cash value of taxable renewable energy AND STORAGE equipment in the manner prescribed by this section.
B. The full cash value of renewable energy AND STORAGE equipment is twenty per cent of the depreciated cost of the equipment. Depreciated cost shall be determined by deducting depreciation from taxable original cost. Depreciation shall not exceed ninety per cent of the adjusted original cost.
C. FOR THE PURPOSES OF THIS SECTION, ALL ENERGY STORAGE EQUIPMENT, BOTH COLOCATED WITH RENEWABLE ENERGY AND STAND-ALONE ENERGY STORAGE EQUIPMENT, QUALIFIES FOR VALUATION PURSUANT TO THIS SECTION.
D. For the purposes of this section:
1. "Depreciation" means straight-line depreciation over the useful life, as adopted by the department, of the item of property.
2. "ELECTRIC UTILITY SCALE" MEANS A PERSON THAT IS ENGAGED IN A BUSINESS ACTIVITY DESCRIBED IN SECTION 42-5063, SUBSECTION A OR THE PERSON'S EQUIPMENT SUPPLIERS.
3. "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.
4. "Original cost" means the actual cost, without trending, of acquiring or constructing property, including additions, retirements, adjustments and transfers.
3. 5. "Renewable energy AND STORAGE equipment" means electric generation facilities, electric transmission, electric distribution, ENERGY STORAGE, gas distribution or combination gas and electric transmission and distribution and transmission and distribution cooperative property that is located in this state, that is used or useful for the generation, storage, transmission GENERATING, STORING, TRANSMITTING or distribution of DISTRIBUTING electric power, energy or fuel derived from solar, wind or other nonpetroleum renewable sources not intended for self-consumption, including materials and supplies and construction work in progress, but excluding licensed vehicles and property valued under sections 42-14154 and 42-14156.

4. 6. "Taxable original cost" means THE original cost, as defined in this section, reduced by the value of any investment tax credits, production tax credits or cash grants in lieu of investment tax credits applicable to the taxable renewable energy AND STORAGE equipment.

Sec. 14. Conditional enactment

Section 42-5061, Arizona Revised Statutes, as amended by Laws 2019, chapter 273, section 8 and chapter 288, section 2 and this act, and section 42-6004, Arizona Revised Statutes, as amended by Laws 2019, chapter 163, section 24 and chapter 189, section 4 and this act, become effective on the date prescribed by Laws 2018, chapter 263, section 5 but only on the occurrence of the conditions prescribed by Laws 2018, chapter 263, section 5.