

House Engrossed Senate Bill

~~charitable organization tax credit; inflation~~
(now: TPT; use tax; hydrogen; exemption)

State of Arizona
Senate
Fifty-fifth Legislature
Second Regular Session
2022

SENATE BILL 1322

AN ACT

AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 266, SECTION 3, CHAPTER 412, SECTION 7, CHAPTER 417, SECTION 4 AND CHAPTER 443, SECTION 2; AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2021, CHAPTER 266, SECTION 4, CHAPTER 412, SECTION 8, CHAPTER 417, SECTION 5 AND CHAPTER 443, SECTION 3; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES; RELATING TO TRANSACTION PRIVILEGE AND AFFILIATED EXCISE TAXES.

(TEXT OF BILL BEGINS ON NEXT PAGE)

1 Be it enacted by the Legislature of the State of Arizona:
2 Section 1. Section 42-5061, Arizona Revised Statutes, as amended by
3 Laws 2021, chapter 266, section 3, chapter 412, section 7, chapter 417,
4 section 4 and chapter 443, section 2, is amended to read:

5 **42-5061. *Retail classification; definitions***

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

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

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

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

19 4. Sales of tangible personal property by any nonprofit
20 organization organized and operated exclusively for charitable purposes
21 and recognized by the United States internal revenue service under section
22 501(c)(3) of the internal revenue code.

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

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

28 7. The sale of stocks and bonds.

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

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

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

37 11. Prescription eyeglasses or contact lenses.

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

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

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

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

6 16. Items purchased with United States department of agriculture
7 coupons issued under the supplemental nutrition assistance program
8 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
9 7 United States Code sections 2011 through 2036b) by the United States
10 department of agriculture food and nutrition service or food instruments
11 issued under section 17 of the child nutrition act (P.L. 95-627;
12 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States
13 Code section 1786).

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

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

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

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

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

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

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

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

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

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

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

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

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

25 25. Tangible personal property sold to:

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

27 (b) A qualifying health care organization as defined in section
28 42-5001 if the tangible personal property is used by the organization
29 solely to provide health and medical related educational and charitable
30 services.

31 (c) A qualifying health care organization as defined in section
32 42-5001 if the organization is dedicated to providing educational,
33 therapeutic, rehabilitative and family medical education training for
34 blind and visually impaired children and children with multiple
35 disabilities from the time of birth to age twenty-one.

36 (d) A qualifying community health center as defined in section
37 42-5001.

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

41 (f) For taxable periods beginning from and after June 30, 2001, a
42 nonprofit charitable organization that has qualified under section
43 501(c)(3) of the internal revenue code and that provides residential
44 apartment housing for low-income persons over sixty-two years of age in a
45 facility that qualifies for a federal housing subsidy, if the tangible

1 personal property is used by the organization solely to provide
2 residential apartment housing for low-income persons over sixty-two years
3 of age in a facility that qualifies for a federal housing subsidy.

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

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

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

12 27. Tangible personal property sold to:

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

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

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

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

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

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

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

41 30. Sales of tangible personal property by a nonprofit organization
42 that is exempt from taxation under section 501(c)(3), 501(c)(4) or
43 501(c)(6) of the internal revenue code if the organization is associated
44 with a major league baseball team or a national touring professional
45 golfing association and no part of the organization's net earnings inures

1 to the benefit of any private shareholder or individual. This paragraph
2 does not apply to an organization that is owned, managed or controlled, in
3 whole or in part, by a major league baseball team, or its owners,
4 officers, employees or agents, or by a major league baseball association
5 or professional golfing association, or its owners, officers, employees or
6 agents, unless the organization conducted or operated exhibition events in
7 this state before January 1, 2018 that were exempt from taxation under
8 section 42-5073.

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

14 32. Sales of tangible personal property by a nonprofit organization
15 that is exempt from taxation under section 501(c)(3), 501(c)(4),
16 501(c)(6), 501(c)(7) or 501(c)(8) of the internal revenue code if the
17 organization sponsors or operates a rodeo featuring primarily farm and
18 ranch animals and no part of the organization's net earnings inures to the
19 benefit of any private shareholder or individual.

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

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

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

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

38 35. Sales of natural gas, HYDROGEN or liquefied petroleum gas used
39 to propel a motor vehicle.

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

43 37. Coal, petroleum, coke, natural gas, HYDROGEN, virgin fuel oil
44 and electricity sold to a qualified environmental technology manufacturer,
45 producer or processor as defined in section 41-1514.02 and directly used

1 or consumed in generating or providing on-site power or energy solely for
2 environmental technology manufacturing, producing or processing or
3 environmental protection. This paragraph applies for twenty full
4 consecutive calendar or fiscal years from the date the first paper
5 manufacturing machine is placed in service. In the case of an
6 environmental technology manufacturer, producer or processor that does not
7 manufacture paper, the time period begins with the date the first
8 manufacturing, processing or production equipment is placed in service.

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

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

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

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

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

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

1 42. Sales of:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 3. Tangible personal property sold to persons engaged in business
44 classified under the telecommunications classification, including a person
45 representing or working on behalf of such a person in a manner described

1 in section 42-5075, subsection 0, and consisting of central office
2 switching equipment, switchboards, private branch exchange equipment,
3 microwave radio equipment and carrier equipment including optical fiber,
4 coaxial cable and other transmission media that are components of carrier
5 systems.

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

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

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

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

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

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

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

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

35 (a) A person:

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

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

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

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

19 (b) Any foreign government.

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

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

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

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

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

44 13. Groundwater measuring devices required under section 45-604.

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

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

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

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

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

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

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

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

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

1 broadcast satellite television or data transmission service first
2 transmits information to its customers.

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

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

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

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

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

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

42 21. Machinery or equipment that enables a television station to
43 originate and broadcast or to receive and broadcast digital television
44 signals and that was purchased to facilitate compliance with the
45 telecommunications act of 1996 (P.L. 104-104; 110 Stat. 56; 47 United

1 States Code section 336) and the federal communications commission order
2 issued April 21, 1997 (47 Code of Federal Regulations part 73). This
3 paragraph does not exempt any of the following:

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

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

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

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

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

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

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

32 2. Janitorial equipment and hand tools.

33 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

37 2. Businesses classified under the:
38 (a) Transporting classification.
39 (b) Utilities classification.
40 (c) Telecommunications classification.
41 (d) Pipeline classification.
42 (e) Private car line classification.
43 (f) Publication classification.
44 (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.

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

8 O. For the purposes of this section, a sale of wireless
9 telecommunications equipment to a person who holds the equipment for sale
10 or transfer to a customer as an inducement to enter into or continue a
11 contract for telecommunications services that are taxable under section
12 42-5064 is considered to be a sale for resale in the regular course of
13 business.

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

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

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

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

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

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

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

38 S. If a seller is entitled to a deduction pursuant to subsection B,
39 paragraph 16, subdivision (b) of this section, the department may require
40 the purchaser to establish that the requirements of subsection B,
41 paragraph 16, subdivision (b) of this section have been satisfied. If the
42 purchaser cannot establish that the requirements of subsection B,
43 paragraph 16, subdivision (b) of this section have been satisfied, the
44 purchaser is liable in an amount equal to any tax, penalty and interest
45 that the seller would have been required to pay under article 1 of this

1 chapter if the seller had not made a deduction pursuant to subsection B,
2 paragraph 16, subdivision (b) of this section. Payment of the amount
3 under this subsection exempts the purchaser from liability for any tax
4 imposed under article 4 of this chapter and related to the tangible
5 personal property purchased. The amount shall be treated as transaction
6 privilege tax to the purchaser and as tax revenues collected from the
7 seller to designate the distribution base pursuant to section 42-5029.

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

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

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

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

30 V. For the purposes of this section:

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

34 2. "Aircraft" includes:

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

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

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

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

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

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

11 2. "Manufacturer" means a person who is principally engaged in
12 fabricating, producing or manufacturing products, wares or articles for
13 use from raw or prepared materials, imparting to those materials new
14 forms, qualities, properties and combinations.

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

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

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

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

36 Sec. 2. Section 42-5061, Arizona Revised Statutes, as amended by
37 Laws 2021, chapter 266, section 4, chapter 412, section 8, chapter 417,
38 section 5 and chapter 443, section 3, is amended to read:

39 42-5061. Retail classification: definitions

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

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

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

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

9 4. Sales of tangible personal property by any nonprofit
10 organization organized and operated exclusively for charitable purposes
11 and recognized by the United States internal revenue service under section
12 501(c)(3) of the internal revenue code.

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

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

18 7. The sale of stocks and bonds.

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

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

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

27 11. Prescription eyeglasses or contact lenses.

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

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

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

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

41 16. Items purchased with United States department of agriculture
42 coupons issued under the supplemental nutrition assistance program
43 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
44 7 United States Code sections 2011 through 2036b) by the United States
45 department of agriculture food and nutrition service or food instruments

1 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
2 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
3 section 1786).

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

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

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

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

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

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

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

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

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

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

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

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

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

14 25. Tangible personal property sold to:

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

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

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

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

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

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

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

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

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

1 27. Tangible personal property sold to:

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

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

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

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

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

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

24 29. Tangible personal property purchased in this state by a
25 nonprofit charitable organization that has qualified under section
26 501(c)(3) of the United States internal revenue code and that engages in
27 and uses such property exclusively in programs for persons with mental or
28 physical disabilities if the programs are exclusively for training, job
29 placement, rehabilitation or testing.

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

43 31. Sales of commodities, as defined by title 7 United States Code
44 section 2, that are consigned for resale in a warehouse in this state in
45 or from which the commodity is deliverable on a contract for future

1 delivery subject to the rules of a commodity market regulated by the
2 United States commodity futures trading commission.

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

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

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

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

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

27 35. Sales of natural gas, HYDROGEN or liquefied petroleum gas used
28 to propel a motor vehicle.

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

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

43 38. Sales of liquid, solid or gaseous chemicals used in
44 manufacturing, processing, fabricating, mining, refining, metallurgical
45 operations, research and development and, beginning on January 1, 1999,

1 printing, if using or consuming the chemicals, alone or as part of an
2 integrated system of chemicals, involves direct contact with the materials
3 from which the product is produced for the purpose of causing or allowing
4 a chemical or physical change to occur in the materials as part of the
5 production process. This paragraph does not include chemicals that are
6 used or consumed in activities such as packaging, storage or
7 transportation but does not affect any deduction for such chemicals that
8 is otherwise provided by this section. For the purposes of this
9 paragraph, "printing" means a commercial printing operation and includes
10 job printing, engraving, embossing, copying and bookbinding.

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

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

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

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

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

34 42. Sales of:

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

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

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

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

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

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

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

24 (a) Printed or photographic materials, beginning August 7, 1985.
25 (b) Electronic or digital media materials, beginning July 17, 1994.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 are recognized as Indian reservations by the United States department of
2 the interior.

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

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

11 60. Sales of coal.

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

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

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

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

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

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

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

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

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

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

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

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

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

25 (a) A person:

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

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

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

39 (iv) Operating an aircraft to transport persons in any manner for
40 compensation or hire, or for use in a fractional ownership program that
41 meets the requirements of federal aviation administration regulations
42 (14 Code of Federal Regulations part 91, subpart K), including as an air
43 carrier, a foreign air carrier or a commercial operator or under a
44 restricted category, within the meaning of 14 Code of Federal Regulations,
45 regardless of whether the operation or aircraft is regulated or certified

1 under part 91, 119, 121, 133, 135, 136 or 137, or another part of 14 Code
2 of Federal Regulations.

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

8 (b) Any foreign government.

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

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

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

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

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

33 13. Groundwater measuring devices required under section 45-604.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

43 (c) Any machinery or equipment purchased after the television
44 station has ceased analog broadcasting, or purchased after November 1,
45 2009, whichever occurs first.

1 22. Qualifying equipment that is purchased from and after June 30,
2 2004 through June 30, 2024 by a qualified business under section 41-1516
3 for harvesting or processing qualifying forest products removed from
4 qualifying projects as defined in section 41-1516. To qualify for this
5 deduction, the qualified business at the time of purchase must present its
6 certification approved by the department.

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

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

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

21 2. Janitorial equipment and hand tools.

22 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

29 2. Businesses classified under the:
30 (a) Transporting classification.
31 (b) Utilities classification.
32 (c) Telecommunications classification.
33 (d) Pipeline classification.
34 (e) Private car line classification.
35 (f) Publication classification.
36 (g) Job printing classification.
37 (h) Prime contracting classification.
38 (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

40 T. In computing the tax base for the sale of a motor vehicle to a
41 nonresident of this state, if the purchaser's state of residence allows a
42 corresponding use tax exemption to the tax imposed by article 1 of this
43 chapter and the rate of the tax in the purchaser's state of residence is
44 lower than the rate prescribed in article 1 of this chapter or if the
45 purchaser's state of residence does not impose an excise tax, and the

1 nonresident has secured a special ninety day nonresident registration
2 permit for the vehicle as prescribed by sections 28-2154 and 28-2154.01,
3 there shall be deducted from the tax base a portion of the gross proceeds
4 or gross income from the sale so that the amount of transaction privilege
5 tax that is paid in this state is equal to the excise tax that is imposed
6 by the purchaser's state of residence on the nonexempt sale or use of the
7 motor vehicle.

8 U. For the purposes of this section:

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

12 2. "Aircraft" includes:

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

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

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

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

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

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

32 2. "Manufacturer" means a person who is principally engaged in
33 fabricating, producing or manufacturing products, wares or articles for
34 use from raw or prepared materials, imparting to those materials new
35 forms, qualities, properties and combinations.

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

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

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

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

13 Sec. 3. Section 42-5159, Arizona Revised Statutes, is amended to
14 read:

15 42-5159. Exemptions

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

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

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

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

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

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

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

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

12 8. Purchases of:

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

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

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

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

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

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

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

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

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

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

1 13. Tangible personal property purchased by:

2 (a) A hospital organized and operated exclusively for charitable

3 purposes, no part of the net earnings of which inures to the benefit of

4 any private shareholder or individual.

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

6 this state.

7 (c) A licensed nursing care institution or a licensed residential

8 care institution or a residential care facility operated in conjunction

9 with a licensed nursing care institution or a licensed kidney dialysis

10 center, which provides medical services, nursing services or health

11 related services and is not used or held for profit.

12 (d) A qualifying health care organization, as defined in section

13 42-5001, if the tangible personal property is used by the organization

14 solely to provide health and medical related educational and charitable

15 services.

16 (e) A qualifying health care organization as defined in section

17 42-5001 if the organization is dedicated to providing educational,

18 therapeutic, rehabilitative and family medical education training for

19 blind and visually impaired children and children with multiple

20 disabilities from the time of birth to age twenty-one.

21 (f) A nonprofit charitable organization that has qualified under

22 section 501(c)(3) of the United States internal revenue code and that

23 engages in and uses such property exclusively in programs for persons with

24 mental or physical disabilities if the programs are exclusively for

25 training, job placement, rehabilitation or testing.

26 (g) A person that is subject to tax under this chapter by reason of

27 being engaged in business classified under section 42-5075, or a

28 subcontractor working under the control of a person that is engaged in

29 business classified under section 42-5075, if the tangible personal

30 property is any of the following:

31 (i) Incorporated or fabricated by the person into a structure,

32 project, development or improvement in fulfillment of a contract.

33 (ii) Incorporated or fabricated by the person into any project

34 described in section 42-5075, subsection 0.

35 (iii) Used in environmental response or remediation activities

36 under section 42-5075, subsection B, paragraph 6.

37 (h) A person that is not subject to tax under section 42-5075 and

38 that has been provided a copy of a certificate described in section

39 42-5009, subsection L, if the property purchased is incorporated or

40 fabricated by the person into the real property, structure, project,

41 development or improvement described in the certificate.

42 (i) A nonprofit charitable organization that has qualified under

43 section 501(c)(3) of the internal revenue code if the property is

44 purchased from the parent or an affiliate organization that is located

45 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.

(1) 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 inures to the benefit of any private shareholder or individual. This subdivision does not apply to an organization that is owned, managed or controlled, in whole or in part, by a major league baseball team, or its owners, officers, employees or agents, or by a major league baseball association or professional golfing association, or its owners, officers, employees or agents, unless the organization conducted or operated exhibition events in this state before

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

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

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

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

17 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

27 (b) Public educational institutions.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

27 54. Coal acquired from an owner or operator of a power plant by a
28 person that is responsible for refining coal if both of the following
29 apply:

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

32 (b) The title or possession of the coal is transferred back to the
33 owner or operator of the power plant after completion of the coal refining
34 process. For the purposes of this subdivision, "coal refining process"
35 means the application of a coal additive system that aids the reduction of
36 power plant emissions during the combustion of coal and the treatment of
37 flue gas.

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

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

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

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

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

26 (ii) Prepaid calling cards for telecommunications services.

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

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

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

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

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

7 3. Tangible personal property sold to persons engaged in business
8 classified under the telecommunications classification under section
9 42-5064, including a person representing or working on behalf of such a
10 person in a manner described in section 42-5075, subsection 0, and
11 consisting of central office switching equipment, switchboards, private
12 branch exchange equipment, microwave radio equipment and carrier equipment
13 including optical fiber, coaxial cable and other transmission media that
14 are components of carrier systems.

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

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

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

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

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

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

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

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

3 (a) A person:

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

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

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

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

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

31 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

19. Machinery or equipment, including related structural components and containment structures, that is employed in connection with manufacturing, processing, fabricating, job printing, refining, mining, natural gas pipelines, metallurgical operations, telecommunications, **PRODUCING OR TRANSMITTING HYDROGEN**, 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

1 nuclear regulatory commission, the Arizona department of environmental
2 quality or a political subdivision of this state to prevent, monitor,
3 control or reduce land, water or air pollution.

4 20. Machinery and equipment that are used in commercially producing
5 livestock, livestock products or agricultural, horticultural, viticultural
6 or floricultural crops or products in this state, including production by
7 a person representing or working on behalf of such a person in a manner
8 described in section 42-5075, subsection 0, if the machinery and equipment
9 are used directly and primarily to prevent, monitor, control or reduce
10 air, water or land pollution.

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

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

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

23 (c) Any machinery or equipment purchased after the television
24 station has ceased analog broadcasting, or purchased after November 1,
25 2009, whichever occurs first.

26 22. Qualifying equipment that is purchased from and after June 30,
27 2004 through June 30, 2024 by a qualified business under section 41-1516
28 for harvesting or processing qualifying forest products removed from
29 qualifying projects as defined in section 41-1516. To qualify for this
30 exemption, the qualified business must obtain and present its
31 certification from the Arizona commerce authority at the time of purchase.

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

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

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

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

7 2. Janitorial equipment and hand tools.
8 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

23 1. Revenues received from sales of ancillary services, electric
24 distribution services, electric generation services, electric transmission
25 services and other services related to providing electricity to a retail
26 electric customer who is located outside this state for use outside this
27 state if the electricity is delivered to a point of sale outside this
28 state.

29 2. Revenues received from providing electricity, including
30 ancillary services, electric distribution services, electric generation
31 services, electric transmission services and other services related to
32 providing electricity with respect to which the transaction privilege tax
33 imposed under section 42-5063 has been paid.

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

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

39 1. Fees charged by a municipally owned utility to persons
40 constructing residential, commercial or industrial developments or
41 connecting residential, commercial or industrial developments to a
42 municipal utility system or systems if the fees are segregated and used
43 only for capital expansion, system enlargement or debt service of the
44 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.

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

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

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

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

15 2. "Aircraft" includes:

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

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

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

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

29 Sec. 4. Applicability

30 Except as provided in section 5 of this act, this act applies to
31 taxable periods beginning on or after the first day of the month following
32 the general effective date.

33 Sec. 5. Conditional enactment

34 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2021,
35 chapter 266, section 4, chapter 412, section 8, chapter 417, section 5,
36 chapter 443, section 3 and this act, becomes effective on the date
37 prescribed by Laws 2018, chapter 263, section 5 and applies to taxable
38 periods beginning on or after the first day of the month following the
39 general effective date of this act but only on the occurrence of the
40 condition prescribed by Laws 2018, chapter 263, section 5.