

COMMITTEE ON WAYS & MEANS
HOUSE OF REPRESENTATIVES AMENDMENTS TO S.B. 1322
(Reference to Senate engrossed bill)

1 Strike everything after the enacting clause and insert:

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 selling
7 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 organization
20 organized and operated exclusively for charitable purposes and recognized
21 by the United States internal revenue service under section 501(c)(3) of
22 the internal revenue code.

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

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

6 7. The sale of stocks and bonds.

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

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

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

15 11. Prescription eyeglasses or contact lenses.

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

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

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

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

29 16. Items purchased with United States department of agriculture
30 coupons issued under the supplemental nutrition assistance program pursuant
31 to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703; 7 United
32 States Code sections 2011 through 2036b) by the United States department of

1 agriculture food and nutrition service or food instruments issued under
2 section 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603;
3 P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code section
4 1786).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

28 25. Tangible personal property sold to:

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

30 (b) A qualifying health care organization as defined in section
31 42-5001 if the tangible personal property is used by the organization

1 solely to provide health and medical related educational and charitable
2 services.

3 (c) A qualifying health care organization as defined in section
4 42-5001 if the organization is dedicated to providing educational,
5 therapeutic, rehabilitative and family medical education training for blind
6 and visually impaired children and children with multiple disabilities from
7 the time of birth to age twenty-one.

8 (d) A qualifying community health center as defined in section
9 42-5001.

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

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

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

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

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

29 27. Tangible personal property sold to:

30 (a) A person that is subject to tax under this article by reason of
31 being engaged in business classified under section 42-5075 or to a
32 subcontractor working under the control of a person engaged in business

1 classified under section 42-5075, if the property so sold is any of the
2 following:

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

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

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

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

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

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

25 30. Sales of tangible personal property by a nonprofit organization
26 that is exempt from taxation under section 501(c)(3), 501(c)(4) or
27 501(c)(6) of the internal revenue code if the organization is associated
28 with a major league baseball team or a national touring professional
29 golfing association and no part of the organization's net earnings inures
30 to the benefit of any private shareholder or individual. This paragraph
31 does not apply to an organization that is owned, managed or controlled, in
32 whole or in part, by a major league baseball team, or its owners, officers,

1 employees or agents, or by a major league baseball association or
2 professional golfing association, or its owners, officers, employees or
3 agents, unless the organization conducted or operated exhibition events in
4 this state before January 1, 2018 that were exempt from taxation under
5 section 42-5073.

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

11 32. Sales of tangible personal property by a nonprofit organization
12 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),
13 501(c)(7) or 501(c)(8) of the internal revenue code if the organization
14 sponsors or operates a rodeo featuring primarily farm and ranch animals and
15 no part of the organization's net earnings inures to the benefit of any
16 private shareholder or individual.

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

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

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

29 34. Machinery, equipment, technology or related supplies that are
30 only useful to assist a person with a physical disability as defined in
31 section 46-191 or a person who has a developmental disability as defined in

1 section 36-551 or has a head injury as defined in section 41-3201 to be
2 more independent and functional.

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

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

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

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

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

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

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

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

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

24 42. Sales of:

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

27 (b) Livestock and poultry feed, salts, vitamins and other additives
28 for livestock or poultry consumption that are sold to persons for use or
29 consumption by their own livestock or poultry, for use or consumption in
30 the businesses of farming, ranching and producing or feeding livestock,
31 poultry, or livestock or poultry products or for use or consumption in

1 noncommercial boarding of livestock. For the purposes of this paragraph,
2 "poultry" includes ratites.

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

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

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

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

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

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

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

28 48. Tangible personal property sold to a commercial airline and
29 consisting of food, beverages and condiments and accessories used for
30 serving the food and beverages, if those items are to be provided without
31 additional charge to passengers for consumption in flight. For the
32 purposes of this paragraph, "commercial airline" means a person holding a

1 federal certificate of public convenience and necessity or foreign air
2 carrier permit for air transportation to transport persons, property or
3 United States mail in intrastate, interstate or foreign commerce.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

28 (a) A person:

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

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

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

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

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

24 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

25 (ii) Over two-thirds of the transmissions, measured in megabytes,
26 transmitted by or on behalf of those direct broadcast television or data
27 transmission services during the test period were transmitted by the
28 facility to or on behalf of those services. For the purposes of
29 subdivision (b) of this paragraph, "test period" means the three hundred
30 sixty-five day period beginning on the later of the date on which the
31 tangible personal property is purchased or the date on which the direct

1 broadcast satellite television or data transmission service first transmits
2 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 this
5 subsection, of semiconductor products. For the purposes of this paragraph,
6 "clean room" means all property that comprises or creates an environment
7 where humidity, temperature, particulate matter and contamination are
8 precisely controlled within specified parameters, without regard to whether
9 the property is actually contained within that environment or whether any
10 of the property is affixed to or incorporated into real property. Clean
11 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, chemical
15 purity or other environmental conditions or manufacturing tolerances, as
16 well as the production machinery and equipment operating in conjunction
17 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

1 quality or a political subdivision of this state to prevent, monitor,
2 control or reduce land, water or air pollution.

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

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

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

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

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

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

31 23. Computer data center equipment sold to the owner, operator or
32 qualified colocation tenant of a computer data center that is certified by

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

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

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

13 2. Janitorial equipment and hand tools.

14 3. Office equipment, furniture and supplies.

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

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

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

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

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

27 D. In addition to the deductions from the tax base prescribed by
28 subsection A of this section, there shall be deducted from the tax base the
29 gross proceeds of sales or gross income derived from sales of machinery,
30 equipment, materials and other tangible personal property used directly and
31 predominantly to construct a qualified environmental technology
32 manufacturing, producing or processing facility as described in section

1 41-1514.02. This subsection applies for ten full consecutive calendar or
2 fiscal years after the start of initial construction.

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

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

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

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

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

30 2. Businesses classified under the:

31 (a) Transporting classification.

32 (b) Utilities classification.

1 (c) Telecommunications classification.

2 (d) Pipeline classification.

3 (e) Private car line classification.

4 (f) Publication classification.

5 (g) Job printing classification.

6 (h) Prime contracting classification.

7 (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

24 O. For the purposes of this section, a sale of wireless
25 telecommunications equipment to a person who holds the equipment for sale
26 or transfer to a customer as an inducement to enter into or continue a
27 contract for telecommunications services that are taxable under section
28 42-5064 is considered to be a sale for resale in the regular course of
29 business.

30 P. Retail sales of prepaid calling cards or prepaid authorization
31 numbers for telecommunications services, including sales of reauthorization

1 of a prepaid card or authorization number, are subject to tax under this
2 section.

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

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

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

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

15 1. The transfer of title or possession of the coal is for the
16 purpose of refining the coal.

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

23 S. If a seller is entitled to a deduction pursuant to subsection B,
24 paragraph 16, subdivision (b) of this section, the department may require
25 the purchaser to establish that the requirements of subsection B,
26 paragraph 16, subdivision (b) of this section have been satisfied. If the
27 purchaser cannot establish that the requirements of subsection B,
28 paragraph 16, subdivision (b) of this section have been satisfied, the
29 purchaser is liable in an amount equal to any tax, penalty and interest
30 that the seller would have been required to pay under article 1 of this
31 chapter if the seller had not made a deduction pursuant to subsection B,
32 paragraph 16, subdivision (b) of this section. Payment of the amount under

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

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

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

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

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

28 V. For the purposes of this section:

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

32 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

26 4. "Overhead materials" means tangible personal property, the gross
27 proceeds of sales or gross income derived from that would otherwise be
28 included in the retail classification, and that are used or consumed in
29 performing a contract, the cost of which is charged to an overhead expense
30 account and allocated to various contracts based on generally accepted
31 accounting principles and consistent with government contract accounting
32 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 materials
9 or other tangible personal property used in performing the subcontract to
10 pass to the government or that includes provisions incorporating such title
11 passing clauses in a government contract into the subcontract.

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

15 42-5061. Retail classification: definitions

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

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

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

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

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

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

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

6 7. The sale of stocks and bonds.

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

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

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

15 11. Prescription eyeglasses or contact lenses.

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

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

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

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

29 16. Items purchased with United States department of agriculture
30 coupons issued under the supplemental nutrition assistance program pursuant
31 to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703; 7 United
32 States Code sections 2011 through 2036b) by the United States department of

1 agriculture food and nutrition service or food instruments issued under
2 section 17 of the child nutrition act (P.L. 95-627; 92 Stat. 3603; P.L.
3 99-661, section 4302; P.L. 111-296; 42 United States Code 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 is
7 classified under the restaurant classification and that provides such food
8 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 means
22 of payment for goods or services that are taxable under this article is
23 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 or
27 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

1 future, whether from the seller of the cash equivalent or from another
2 person. Cash equivalents do not include either of the following:

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

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

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

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

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

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

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

27 25. Tangible personal property sold to:

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

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

1 (c) A qualifying health care organization as defined in section
2 42-5001 if the organization is dedicated to providing educational,
3 therapeutic, rehabilitative and family medical education training for blind
4 and visually impaired children and children with multiple disabilities from
5 the time of birth to age twenty-one.

6 (d) A qualifying community health center as defined in section
7 42-5001.

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

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

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

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

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

27 27. Tangible personal property sold to:

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

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

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

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

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

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

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

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

1 agents, unless the organization conducted or operated exhibition events in
2 this state before January 1, 2018 that were exempt from taxation under
3 section 42-5073.

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

9 32. Sales of tangible personal property by a nonprofit organization
10 that is exempt from taxation under section 501(c)(3), 501(c)(4), 501(c)(6),
11 501(c)(7) or 501(c)(8) of the internal revenue code if the organization
12 sponsors or operates a rodeo featuring primarily farm and ranch animals and
13 no part of the organization's net earnings inures to the benefit of any
14 private shareholder or individual.

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

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

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

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

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

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

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

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

30 39. Through December 31, 1994, personal property liquidation
31 transactions, conducted by a personal property liquidator. From and after
32 December 31, 1994, personal property liquidation transactions shall be

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

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

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

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

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

21 42. Sales of:

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

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

31 43. Sales of implants used as growth promotants and injectable
32 medicines, not already exempt under paragraph 8 of this subsection, for

1 livestock or poultry owned by or in possession of persons that are engaged
2 in producing livestock, poultry, or livestock or poultry products or that
3 are engaged in feeding livestock or poultry commercially. For the purposes
4 of this paragraph, "poultry" includes ratites.

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

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

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

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

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

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

24 48. Tangible personal property sold to a commercial airline and
25 consisting of food, beverages and condiments and accessories used for
26 serving the food and beverages, if those items are to be provided without
27 additional charge to passengers for consumption in flight. For the
28 purposes of this paragraph, "commercial airline" means a person holding a
29 federal certificate of public convenience and necessity or foreign air
30 carrier permit for air transportation to transport persons, property or
31 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 under
11 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 student
18 learning or to promote curriculum design or enhancement purchased by or for
19 any school district, charter school, community college or state university.
20 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 business
27 under section 41-1516 for off-road use in harvesting, processing or
28 transporting qualifying forest products removed from qualifying projects as
29 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

1 transporting qualifying forest products removed from qualifying projects as
2 defined in section 41-1516.

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

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

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

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

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

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

31 59. Sales of works of fine art, as defined in section 44-1771, at an
32 art auction or gallery in this state to nonresidents of this state for use

1 outside this state if the vendor ships or delivers the work of fine art to
2 a destination outside this state.

3 60. Sales of coal.

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

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

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

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

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

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

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

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

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

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

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

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

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

28 (a) A person:

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

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

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

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

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

24 (b) Any foreign government.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

29 For the purposes of subdivision (b) of this paragraph, "test period" means
30 the three hundred sixty-five day period beginning on the later of the date
31 on which the tangible personal property is purchased or the date on which

1 the direct broadcast satellite television or data transmission service
2 first 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 this
5 subsection, of semiconductor products. For the purposes of this paragraph,
6 "clean room" means all property that comprises or creates an environment
7 where humidity, temperature, particulate matter and contamination are
8 precisely controlled within specified parameters, without regard to whether
9 the property is actually contained within that environment or whether any
10 of the property is affixed to or incorporated into real property. Clean
11 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, chemical
15 purity or other environmental conditions or manufacturing tolerances, as
16 well as the production machinery and equipment operating in conjunction
17 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

1 quality or a political subdivision of this state to prevent, monitor,
2 control or reduce land, water or air pollution.

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

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

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

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

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

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

31 23. Computer data center equipment sold to the owner, operator or
32 qualified colocation tenant of a computer data center that is certified by

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

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

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

13 2. Janitorial equipment and hand tools.

14 3. Office equipment, furniture and supplies.

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

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

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

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

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

27 D. In addition to the deductions from the tax base prescribed by
28 subsection A of this section, there shall be deducted from the tax base the
29 gross proceeds of sales or gross income derived from sales of machinery,
30 equipment, materials and other tangible personal property used directly and
31 predominantly to construct a qualified environmental technology
32 manufacturing, producing or processing facility as described in section

1 41-1514.02. This subsection applies for ten full consecutive calendar or
2 fiscal years after the start of initial construction.

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

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

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

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

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

30 2. Businesses classified under the:

31 (a) Transporting classification.

32 (b) Utilities classification.

1 (c) Telecommunications classification.

2 (d) Pipeline classification.

3 (e) Private car line classification.

4 (f) Publication classification.

5 (g) Job printing classification.

6 (h) Prime contracting classification.

7 (i) Restaurant classification.

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

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

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

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

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

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

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

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

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

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

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

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

24 O. For the purposes of this section, a sale of wireless
25 telecommunications equipment to a person who holds the equipment for sale
26 or transfer to a customer as an inducement to enter into or continue a
27 contract for telecommunications services that are taxable under section
28 42-5064 is considered to be a sale for resale in the regular course of
29 business.

30 P. Retail sales of prepaid calling cards or prepaid authorization
31 numbers for telecommunications services, including sales of reauthorization

1 of a prepaid card or authorization number, are subject to tax under this
2 section.

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

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

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

11 R. If a seller is entitled to a deduction pursuant to subsection B,
12 paragraph 16, subdivision (b) of this section, the department may require
13 the purchaser to establish that the requirements of subsection B, paragraph
14 16, subdivision (b) of this section have been satisfied. If the purchaser
15 cannot establish that the requirements of subsection B, paragraph 16,
16 subdivision (b) of this section have been satisfied, the purchaser is
17 liable in an amount equal to any tax, penalty and interest that the seller
18 would have been required to pay under article 1 of this chapter if the
19 seller had not made a deduction pursuant to subsection B, paragraph 16,
20 subdivision (b) of this section. Payment of the amount under this
21 subsection exempts the purchaser from liability for any tax imposed under
22 article 4 of this chapter and related to the tangible personal property
23 purchased. The amount shall be treated as transaction privilege tax to the
24 purchaser and as tax revenues collected from the seller to designate the
25 distribution base pursuant to section 42-5029.

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

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

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

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

17 U. For the purposes of this section:

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

21 2. "Aircraft" includes:

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

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

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

31 4. "Selling at retail" means a sale for any purpose other than for
32 resale in the regular course of business in the form of tangible personal

1 property, but transfer of possession, lease and rental as used in the
2 definition of sale mean only such transactions as are found on
3 investigation to be in lieu of sales as defined without the words lease or
4 rental.

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

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

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

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

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

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

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

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

3 42-5159. Exemptions

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

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

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

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

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

24 5. Motor vehicle fuel and use fuel, the sales, distribution or use
25 of which in this state is subject to the tax imposed under title 28,
26 chapter 16, article 1, use fuel that is sold to or used by a person holding
27 a valid single trip use fuel tax permit issued under section 28-5739,
28 aviation fuel, the sales, distribution or use of which in this state is
29 subject to the tax imposed under section 28-8344, and jet fuel, the sales,
30 distribution or use of which in this state is subject to the tax imposed
31 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 for
3 storage, use or consumption by the individual if the first actual use or
4 consumption of the property was outside this state, unless the property is
5 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 cannabis.

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

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

8 12. Materials that are purchased by or for publicly funded
9 libraries, including school district libraries, charter school libraries,
10 community college libraries, state university libraries or federal, state,
11 county or municipal libraries, for use by the public as follows:

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

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

14 13. Tangible personal property purchased by:

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

18 (b) A hospital operated by this state or a political subdivision of
19 this state.

20 (c) A licensed nursing care institution or a licensed residential
21 care institution or a residential care facility operated in conjunction
22 with a licensed nursing care institution or a licensed kidney dialysis
23 center, which provides medical services, nursing services or health related
24 services and is not used or held for profit.

25 (d) A qualifying health care organization, as defined in section
26 42-5001, if the tangible personal property is used by the organization
27 solely to provide health and medical related educational and charitable
28 services.

29 (e) A qualifying health care organization as defined in section
30 42-5001 if the organization is dedicated to providing educational,
31 therapeutic, rehabilitative and family medical education training for blind

1 and visually impaired children and children with multiple disabilities from
2 the time of birth to age twenty-one.

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

8 (g) A person that is subject to tax under this chapter by reason of
9 being engaged in business classified under section 42-5075, or a
10 subcontractor working under the control of a person that is engaged in
11 business classified under section 42-5075, if the tangible personal
12 property is any of the following:

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

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

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

19 (h) A person that is not subject to tax under section 42-5075 and
20 that has been provided a copy of a certificate described in section
21 42-5009, subsection L, if the property purchased is incorporated or
22 fabricated by the person into the real property, structure, project,
23 development or improvement described in the certificate.

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

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

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

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

6 (m) For taxable periods beginning from and after June 30, 2001, a
7 nonprofit charitable organization that has qualified under section
8 501(c)(3) of the internal revenue code and that provides residential
9 apartment housing for low-income persons over sixty-two years of age in a
10 facility that qualifies for a federal housing subsidy, if the tangible
11 personal property is used by the organization solely to provide residential
12 apartment housing for low-income persons over sixty-two years of age in a
13 facility that qualifies for a federal housing subsidy.

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

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

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

25 15. Tangible personal property sold by:

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

29 (b) A nonprofit organization that is exempt from taxation under
30 section 501(c)(3), 501(c)(4) or 501(c)(6) of the internal revenue code if
31 the organization is associated with a major league baseball team or a
32 national touring professional golfing association and no part of the

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

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

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

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

24 18. Prescription eyeglasses and contact lenses.

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

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

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

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

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

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

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

17 26. Food, drink or condiment and accessory tangible personal
18 property that are acquired for use by or provided to a school district or
19 charter school if they are to be either served or prepared and served to
20 persons for consumption on the premises of a public school in the school
21 district or on the premises of the charter school during school hours.

22 27. Lottery tickets or shares purchased pursuant to title 5, chapter
23 5.1, article 1.

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

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

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

31 31. Coal, petroleum, coke, natural gas, **HYDROGEN**, virgin fuel oil
32 and electricity purchased by a qualified environmental technology

1 manufacturer, producer or processor as defined in section 41-1514.02 and
2 directly used or consumed in generating or providing on-site power or
3 energy solely for environmental technology manufacturing, producing or
4 processing or environmental protection. This paragraph applies for twenty
5 full consecutive calendar or fiscal years from the date the first paper
6 manufacturing machine is placed in service. In the case of an
7 environmental technology manufacturer, producer or processor that does not
8 manufacture paper, the time period begins with the date the first
9 manufacturing, processing or production equipment is placed in service.

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

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

14 (b) Public educational institutions.

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

18 33. Natural gas, **HYDROGEN** or liquefied petroleum gas used to propel
19 a motor vehicle.

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

25 35. Liquid, solid or gaseous chemicals used in manufacturing,
26 processing, fabricating, mining, refining, metallurgical operations,
27 research and development and, beginning on January 1, 1999, printing, if
28 using or consuming the chemicals, alone or as part of an integrated system
29 of chemicals, involves direct contact with the materials from which the
30 product is produced for the purpose of causing or allowing a chemical or
31 physical change to occur in the materials as part of the production
32 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 provided
3 by this section. For the purposes of this paragraph, "printing" means a
4 commercial printing operation and includes job printing, engraving,
5 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 of
8 the state department of corrections, the department of public safety, the
9 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 the
23 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 gross
26 proceeds of sales or gross income derived from which would otherwise be
27 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.

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

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

18 41. Wireless telecommunications equipment that is held for sale or
19 transfer to a customer as an inducement to enter into or continue a
20 contract for telecommunications services that are taxable under section
21 42-5064.

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

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

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

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

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

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

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

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

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

24 49. Prepared food, drink or condiment donated by a restaurant as
25 classified in section 42-5074, subsection A to a nonprofit charitable
26 organization that has qualified under section 501(c)(3) of the internal
27 revenue code and that regularly serves meals to the needy and indigent on a
28 continuing basis at no cost.

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

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

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

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

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

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

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

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

26 (b) The title or possession of the coal is transferred back to the
27 owner or operator of the power plant after completion of the coal refining
28 process. For the purposes of this subdivision, "coal refining process"
29 means the application of a coal additive system that aids the reduction of
30 power plant emissions during the combustion of coal and the treatment of
31 flue gas.

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

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

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

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

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

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

3 (ii) Prepaid calling cards for telecommunications services.

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

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

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

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

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

27 3. Tangible personal property sold to persons engaged in business
28 classified under the telecommunications classification under section
29 42-5064, including a person representing or working on behalf of such a
30 person in a manner described in section 42-5075, subsection 0, and
31 consisting of central office switching equipment, switchboards, private
32 branch exchange equipment, microwave radio equipment and carrier equipment

1 including optical fiber, coaxial cable and other transmission media that
2 are components of carrier systems.

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

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

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

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

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

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

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

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

30 (a) A person:

31 (i) Holding, or exempted by federal law from obtaining, a federal
32 certificate of public convenience and necessity for use as, in conjunction

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

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

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

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

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

26 (b) Any foreign government.

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

1 state and the property will not be used in this state other than in
2 removing the property from this state.

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

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

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

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

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

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

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

1 (b) "Self-powered implements" includes machinery and equipment that
2 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, developing
6 or testing prototypes, processes or new products, including research and
7 development of computer software that is embedded in or an integral part of
8 the prototype or new product or that is required for machinery or equipment
9 otherwise exempt under this section to function effectively. Research and
10 development do not include manufacturing quality control, routine consumer
11 product testing, market research, sales promotion, sales service, research
12 in social sciences or psychology, computer software research that is not
13 included in the definition of research and development, or other
14 nontechnological activities or technical services.

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

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

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

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

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

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

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

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

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

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

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

25 19. Machinery or equipment, including related structural components
26 and containment structures, that is employed in connection with
27 manufacturing, processing, fabricating, job printing, refining, mining,
28 natural gas pipelines, metallurgical operations, telecommunications,
29 PRODUCING OR TRANSMITTING HYDROGEN, producing or transmitting electricity
30 or research and development and that is used directly to meet or exceed
31 rules or regulations adopted by the federal energy regulatory commission,
32 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 a
7 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 air,
10 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 certification
31 from the Arizona commerce authority at the time of purchase.

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

7 24. 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 agent
10 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 tenant"
14 have the same meanings prescribed in section 41-1519.

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

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 of
29 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

24 2. "Aircraft" includes:

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

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

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

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

8 Sec. 4. Applicability

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

12 Sec. 5. Conditional enactment

13 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2021,
14 chapter 266, section 4, chapter 412, section 8, chapter 417, section 5,
15 chapter 443, section 3 and this act, becomes effective on the date
16 prescribed by Laws 2018, chapter 263, section 5 and applies to taxable
17 periods beginning on or after the first day of the month following the
18 general effective date of this act but only on the occurrence of the
19 condition prescribed by Laws 2018, chapter 263, section 5."

20 Amend title to conform

And, as so amended, it do pass

SHAWNNA LM BOLICK
CHAIRMAN

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