

Senate Engrossed

2025-2026; taxation; omnibus

State of Arizona
Senate
Fifty-seventh Legislature
First Regular Session
2025

CHAPTER 247

SENATE BILL 1749

AN ACT

AMENDING SECTION 42-5061, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2025, CHAPTER 135, SECTION 1; AMENDING SECTION 42-5159, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2025, CHAPTER 135, SECTION 2; AMENDING SECTION 42-11111, ARIZONA REVISED STATUTES, AS AMENDED BY LAWS 2025, CHAPTER 16, SECTION 1; AMENDING SECTIONS 42-11127, 43-1022 AND 43-1089.01, ARIZONA REVISED STATUTES; RELATING TO TAXATION.

(TEXT OF BILL BEGINS ON NEXT PAGE)

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

2 Section 1. Section 42-5061, Arizona Revised Statutes, as amended by
3 Laws 2025, chapter 135, section 1, is amended to read:

4 42-5061. Retail classification; definitions

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

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

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

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

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

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

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

27 7. The sale of stocks and bonds.

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

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

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

36 11. Prescription eyeglasses or contact lenses.

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

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

1 14. Sales of motor vehicles to nonresidents of this state for use
2 outside this state if either of the following applies:

3 (a) The motor vehicle dealer ships or delivers the motor vehicle to
4 a destination out of this state.

5 (b) The vehicle, trailer or semitrailer has a gross vehicle weight
6 rating of more than ten thousand pounds, is used or maintained to
7 transport property in the furtherance of interstate commerce and otherwise
8 meets the definition of commercial motor vehicle as defined in section
9 28-5201.

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

12 16. Items purchased with United States department of agriculture
13 coupons issued under the supplemental nutrition assistance program
14 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
15 7 United States Code sections 2011 through 2036b) by the United States
16 department of agriculture food and nutrition service or food instruments
17 issued under section 17 of the child nutrition act (P.L. 95-627;
18 92 Stat. 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States
19 Code section 1786).

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

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

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

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

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

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

1 electronic mechanisms, such as an electronic code, personal identification
2 number or digital payment mechanism, or any other prepaid intangible right
3 to acquire tangible personal property, intangibles or services in the
4 future, whether from the seller of the cash equivalent or from another
5 person. Cash equivalents do not include either of the following:

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

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

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

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

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

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

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

30 25. Tangible personal property sold to:

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

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

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

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

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

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

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

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

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

17 27. Tangible personal property sold to:

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

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

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

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

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

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

40 29. Tangible personal property purchased in this state by a
41 nonprofit charitable organization that has qualified under section
42 501(c)(3) of the United States internal revenue code and that engages in
43 and uses such property exclusively in programs for persons with mental or
44 physical disabilities if the programs are exclusively for training, job
45 placement, rehabilitation or testing.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

6 42. Sales of:

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

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

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

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

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

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

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

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

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

41 48. Tangible personal property sold to a commercial airline and
42 consisting of food, beverages and condiments and accessories used for
43 serving the food and beverages, if those items are to be provided without
44 additional charge to passengers for consumption in flight. For the
45 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
14 under 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
21 student learning or to promote curriculum design or enhancement purchased
22 by or for any school district, charter school, community college or state
23 university. 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
30 business under section 41-1516 for off-road use in harvesting, processing
31 or transporting qualifying forest products removed from qualifying
32 projects as defined in section 41-1516.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

38 (a) A person:

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

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

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

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

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

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

21 (b) Any foreign government.

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

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

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

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

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

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

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

10 (a) "Off-highway vehicles" means off-highway vehicles as defined in
11 section 28-1171 that are modified at the time of sale to function as a
12 tractor or to tow tractor-drawn implements and that are not equipped with
13 a modified exhaust system to increase horsepower or speed or an engine
14 that is more than one thousand cubic centimeters or that have a maximum
15 speed of fifty miles per hour or less.

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

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

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

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

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

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

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

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

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

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

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

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

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

41 20. Machinery and equipment that are sold to a person engaged in
42 commercially producing livestock, livestock products or agricultural,
43 horticultural, viticultural or floricultural crops or products in this
44 state, including a person representing or working on behalf of such a
45 person in a manner described in section 42-5075, subsection 0, if the

1 machinery and equipment are used directly and primarily to prevent,
2 monitor, control or reduce air, water or land pollution.

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

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

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

15 (c) Any machinery or equipment purchased after the television
16 station has ceased analog broadcasting, or purchased after November 1,
17 2009, whichever occurs first.

18 22. Qualifying equipment that is purchased from and after June 30,
19 2004 through December 31, 2028 by a qualified business under section
20 41-1516 for harvesting or processing qualifying forest products removed
21 from qualifying projects as defined in section 41-1516. To qualify for
22 this deduction, the qualified business at the time of purchase must
23 present its certification approved by the department.

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

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

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

38 2. Janitorial equipment and hand tools.

39 3. Office equipment, furniture and supplies.

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

43 5. Motor vehicles required to be licensed by this state, except
44 buses or other urban mass transit vehicles specifically exempted pursuant

1 to subsection B, paragraph 12 of this section, without regard to the use
2 of such motor vehicles.

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

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

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

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

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

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

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

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

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

1 2. Businesses classified under the:
2 (a) Transporting classification.
3 (b) Utilities classification.
4 (c) Telecommunications classification.
5 (d) Pipeline classification.
6 (e) Private car line classification.
7 (f) Publication classification.
8 (g) Job printing classification.
9 (h) Prime contracting classification.
10 (i) Restaurant classification.
11 I. The gross proceeds of sales or gross income derived from the
12 following shall be deducted from the tax base for the retail
13 classification:
14 1. Sales made directly to the United States government or its
15 departments or agencies by a manufacturer, modifier, assembler or
16 repairer.
17 2. Sales made directly to a manufacturer, modifier, assembler or
18 repairer if such sales are of any ingredient or component part of products
19 sold directly to the United States government or its departments or
20 agencies by the manufacturer, modifier, assembler or repairer.
21 3. Overhead materials or other tangible personal property that is
22 used in performing a contract between the United States government and a
23 manufacturer, modifier, assembler or repairer, including property used in
24 performing a subcontract with a government contractor who is a
25 manufacturer, modifier, assembler or repairer, to which title passes to
26 the government under the terms of the contract or subcontract.
27 4. Sales of overhead materials or other tangible personal property
28 to a manufacturer, modifier, assembler or repairer if the gross proceeds
29 of sales or gross income derived from the property by the manufacturer,
30 modifier, assembler or repairer will be exempt under paragraph 3 of this
31 subsection.
32 J. There shall be deducted from the tax base fifty percent of the
33 gross proceeds or gross income from any sale of tangible personal property
34 made directly to the United States government or its departments or
35 agencies that is not deducted under subsection I of this section.
36 K. The department shall require every person claiming a deduction
37 provided by subsection I or J of this section to file on forms prescribed
38 by the department at such times as the department directs a sworn
39 statement disclosing the name of the purchaser and the exact amount of
40 sales on which the exclusion or deduction is claimed.
41 L. In computing the tax base, gross proceeds of sales or gross
42 income does not include:
43 1. A manufacturer's cash rebate on the sales price of a motor
44 vehicle if the buyer assigns the buyer's right in the rebate to the
45 retailer.

1 2. The waste tire disposal fee imposed pursuant to section 44-1302.
2 M. There shall be deducted from the tax base the amount received
3 from sales of solar energy devices. The retailer shall register with the
4 department as a solar energy retailer. By registering, the retailer
5 acknowledges that it will make its books and records relating to sales of
6 solar energy devices available to the department for examination.

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

14 O. For the purposes of this section, a sale of wireless
15 telecommunications equipment to a person who holds the equipment for sale
16 or transfer to a customer as an inducement to enter into or continue a
17 contract for telecommunications services that are taxable under section
18 42-5064 is considered to be a sale for resale in the regular course of
19 business.

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

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

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

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

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

36 1. The transfer of title or possession of the coal is for the
37 purpose of refining the coal.

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

44 S. If a seller is entitled to a deduction pursuant to subsection B,
45 paragraph 16, subdivision (b) of this section, the department may require

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

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

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

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

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

36 V. For the purposes of this section:

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

40 2. "Aircraft" includes:

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

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

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

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

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

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

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

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

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

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

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

1 Sec. 2. Section 42-5159, Arizona Revised Statutes, as amended by
2 Laws 2025, chapter 135, section 2, is amended to read:

3 42-5159. Exemptions

4 A. The tax levied by this article does not apply to the storage,
5 use or consumption in this state of the following described tangible
6 personal 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
23 of 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
27 holding a valid single trip use fuel tax permit issued under
28 section 28-5739, aviation fuel, the sales, distribution or use of which in
29 this state is subject to the tax imposed under section 28-8344, and jet
30 fuel, the sales, distribution or use of which in this state is subject to
31 the tax imposed under article 8 of this chapter.

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

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

43 8. Purchases of:

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

1 (b) Livestock and poultry feed, salts, vitamins and other additives
2 sold to persons for use or consumption in the businesses of farming,
3 ranching and producing or feeding livestock or poultry or for use or
4 consumption in noncommercial boarding of livestock. For the purposes of
5 this paragraph, "poultry" includes ratites.

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

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

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

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

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

26 12. Materials that are purchased by or for publicly funded
27 libraries, including school district libraries, charter school libraries,
28 community college libraries, state university libraries or federal, state,
29 county or municipal libraries, for use by the public as follows:

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

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

32 13. Tangible personal property purchased by:

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

36 (b) A hospital operated by this state or a political subdivision of
37 this state.

38 (c) A licensed nursing care institution or a licensed residential
39 care institution or a residential care facility operated in conjunction
40 with a licensed nursing care institution or a licensed kidney dialysis
41 center, which provides medical services, nursing services or health
42 related services and is not used or held for profit.

43 (d) A qualifying health care organization, as defined in section
44 42-5001, if the tangible personal property is used by the organization
45 solely to provide health and medical related educational and charitable
46 services.

1 (e) 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
4 blind and visually impaired children and children with multiple
5 disabilities from the time of birth to age twenty-one.

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

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

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

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

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

22 (h) A person that is not subject to tax under section 42-5075 and
23 that has been provided a copy of a certificate described in section
24 42-5009, subsection L, if the property purchased is incorporated or
25 fabricated by the person into the real property, structure, project,
26 development or improvement described in the certificate.

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

31 (j) A qualifying community health center as defined in section
32 42-5001.

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

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

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

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

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

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

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

16 15. Tangible personal property sold by:

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

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

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

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

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

5 18. Prescription eyeglasses and contact lenses.

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

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

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

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

17 23. Items purchased with United States department of agriculture
18 coupons issued under the supplemental nutrition assistance program
19 pursuant to the food and nutrition act of 2008 (P.L. 88-525; 78 Stat. 703;
20 7 United States Code sections 2011 through 2036b) by the United States
21 department of agriculture food and nutrition service or food instruments
22 issued under section 17 of the child nutrition act (P.L. 95-627; 92 Stat.
23 3603; P.L. 99-661, section 4302; P.L. 111-296; 42 United States Code
24 section 1786).

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

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

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

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

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

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

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

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

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

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

16 (b) Public educational institutions.

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

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

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

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

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

44 37. A motor vehicle and any repair and replacement parts and
45 tangible personal property becoming a part of such motor vehicle sold to a

1 motor carrier that is subject to a fee prescribed in title 28, chapter 16,
2 article 4 and that is engaged in the business of leasing or renting such a
3 property.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

17 (ii) Prepaid calling cards for telecommunications services.

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

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

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

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

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

41 3. Tangible personal property sold to persons engaged in business
42 classified under the telecommunications classification under section
43 42-5064, including a person representing or working on behalf of such a
44 person in a manner described in section 42-5075, subsection 0, and
45 consisting of central office switching equipment, switchboards, private

1 branch exchange equipment, microwave radio equipment and carrier equipment
2 including optical fiber, coaxial cable and other transmission media that
3 are components of carrier systems.

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

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

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

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

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

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

26 7. Pipes or valves four inches in diameter or larger used to
27 transport oil, natural gas, artificial gas, water, [WASTEWATER](#) or coal
28 slurry, including compressor units, regulators, machinery and equipment,
29 fittings, seals and any other part that is used in operating the pipes or
30 valves.

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

33 (a) A person:

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

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

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

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

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

19 (b) Any foreign government.

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

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

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

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

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

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

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

9 (a) "Off-highway vehicles" means off-highway vehicles as defined in
10 section 28-1171 that are modified at the time of sale to function as a
11 tractor or to tow tractor-drawn implements and that are not equipped with
12 a modified exhaust system to increase horsepower or speed or an engine
13 that is more than one thousand cubic centimeters or that have a maximum
14 speed of fifty miles per hour or less.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

23 22. Qualifying equipment that is purchased from and after June 30,
24 2004 through December 31, 2028 by a qualified business under section
25 41-1516 for harvesting or processing qualifying forest products removed
26 from qualifying projects as defined in section 41-1516. To qualify for
27 this exemption, the qualified business must obtain and present its
28 certification from the Arizona commerce authority at the time of purchase.

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

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

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

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

7 2. Janitorial equipment and hand tools.

8 3. Office equipment, furniture and supplies.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

15 2. "Aircraft" includes:

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

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

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

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

29 Sec. 3. Section 42-11111, Arizona Revised Statutes, as amended by
30 Laws 2025, chapter 16, section 1, is amended to read:

31 42-11111. Exemption for property; widows and widowers; persons
32 with a total and permanent disability; veterans
33 with a disability; definitions

34 A. The property of widows and widowers, of persons with total and
35 permanent disabilities and of veterans with service or nonservice
36 connected disabilities who are residents of this state is exempt from
37 taxation as provided by article IX, section 2, Constitution of Arizona,
38 and subject to the conditions and limits prescribed by this section.

39 B. Pursuant to article IX, section 2, subsection F, Constitution of
40 Arizona, the exemptions from taxation under this section are allowed ~~in~~
41 ~~the amount of~~ AS PROVIDED IN SUBSECTIONS C, D AND E OF THIS SECTION.

42 C. THE PROPERTY OF A VETERAN WITH A SERVICE-CONNECTED DISABILITY
43 WHOSE DISABILITY RATING BY THE UNITED STATES DEPARTMENT OF VETERANS
44 AFFAIRS IS ONE HUNDRED PERCENT IS FULLY EXEMPT FROM TAXATION. THE
45 SURVIVING SPOUSE OF A VETERAN WHOSE PROPERTY IS ELIGIBLE FOR THE EXEMPTION

1 UNDER THIS SUBSECTION MAY CONTINUE TO CLAIM THE FULL EXEMPTION AS LONG AS
2 THE SURVIVING SPOUSE USES THE PROPERTY AS THE SURVIVING SPOUSE'S PRIMARY
3 RESIDENCE AND THE SURVIVING SPOUSE DOES NOT REMARRY.

4 D. THE PROPERTY OF A VETERAN WITH A NONSERVICE-CONNECTED DISABILITY
5 WHOSE DISABILITY RATING BY THE UNITED STATES DEPARTMENT OF VETERANS
6 AFFAIRS IS ONE HUNDRED PERCENT OR LESS OR WITH A SERVICE-CONNECTED
7 DISABILITY WHOSE DISABILITY RATING BY THE UNITED STATES DEPARTMENT OF
8 VETERANS AFFAIRS IS LESS THAN ONE HUNDRED PERCENT IS EXEMPT IN THE AMOUNT
9 OF \$4,188. THE LIMIT UNDER THIS SUBSECTION IS FURTHER LIMITED BY
10 MULTIPLYING THE TOTAL EXEMPTION AMOUNT BY THE PERCENTAGE OF THE VETERAN'S
11 DISABILITY, AS RATED BY THE UNITED STATES DEPARTMENT OF VETERANS AFFAIRS.

12 E. THE PROPERTY OF A WIDOW OR WIDOWER OR A PERSON WITH A TOTAL AND
13 PERMANENT DISABILITY IS EXEMPT IN THE AMOUNT OF:

14 1. \$4,188 if the person's total assessment does not exceed the
15 amount provided in paragraph 2 of this subsection. ~~For a veteran with a~~
16 ~~service or nonservice connected disability, the \$4,188 limit under this~~
17 ~~paragraph is further limited by multiplying the total exemption amount by~~
18 ~~the percentage of the veteran's disability, as rated by the United States~~
19 ~~department of veterans affairs.~~

20 2. No exemption if the person's total assessment exceeds \$28,459.

21 ~~E.~~ F. On or before December 31 of each year, the department shall
22 increase the following amounts:

23 1. The total allowable exemption amount under SUBSECTION D AND
24 subsection ~~B~~ E, paragraph 1 of this section based on the average annual
25 percentage increase, if any, in the GDP price deflator in the two most
26 recent complete state fiscal years.

27 2. Beginning in tax year 2026, the total assessment limit amount
28 under subsection ~~B~~ E, paragraph 2 of this section based on the average
29 annual percentage increase, if any, in the federal house price index for
30 the two most recent complete state fiscal years.

31 3. The total income limit amounts under subsection ~~E~~ H, paragraphs
32 1 and 2 of this section based on the average annual percentage increase,
33 if any, in the GDP price deflator in the two most recent complete state
34 fiscal years.

35 ~~D.~~ G. For the purpose of determining the amount of the allowable
36 exemption pursuant to subsection ~~B~~ E of this section, the person's total
37 assessment shall not include the value of any vehicle that is taxed under
38 title 28, chapter 16, article 3.

39 ~~E.~~ H. Pursuant to article IX, section 2, subsection F,
40 Constitution of Arizona, to qualify for this exemption, the total income
41 from all sources of the claimant and the claimant's spouse and the income
42 from all sources of all of the claimant's children who resided with the
43 claimant in the claimant's residence in the year immediately preceding the
44 year for which the claimant applies for the exemption shall not exceed:

1 1. \$34,901 if none of the claimant's children under eighteen years
2 of age resided with the claimant in the claimant's residence.
3 2. \$41,870 if one or more of the claimant's children residing with
4 the claimant in the claimant's residence either:
5 (a) Were under eighteen years of age.
6 (b) Had a total and permanent physical or mental disability, as
7 certified by competent medical authority as provided by law.
8 ~~F~~ I. For the purposes of subsection ~~F~~ H of this section, "income
9 from all sources" means the sum of the following, excluding the items
10 listed in subsection ~~G~~ J of this section:
11 1. Adjusted gross income as defined by the department.
12 2. The amount of capital gains excluded from adjusted gross income.
13 3. Nontaxable strike benefits.
14 4. Nontaxable interest that is received from the federal government
15 or any of its instrumentalities.
16 5. Payments that are received from a retirement program and paid
17 by:
18 (a) This state or any of its political subdivisions.
19 (b) The United States through any of its agencies,
20 instrumentalities or programs, except as provided in subsection ~~G~~ J of
21 this section.
22 6. The gross amount of any pension or annuity that is not otherwise
23 exempted.
24 ~~G~~ J. Notwithstanding subsection ~~F~~ I of this section, income from
25 all sources does not include monies received from:
26 1. Cash public assistance and relief.
27 2. Railroad retirement benefits.
28 3. Payments under the federal social security act (49 Stat. 620).
29 4. Payments under the unemployment insurance laws of this state.
30 5. Payments from ANY veterans ~~disability~~ pensions.
31 6. Workers' compensation payments.
32 7. Loss of time insurance.
33 8. Gifts from nongovernmental sources, surplus foods or other
34 relief in kind supplied by a governmental agency.
35 ~~H~~ K. A widow or widower, a person with a total and permanent
36 disability or a veteran with a disability shall establish eligibility for
37 exemption under this section by filing an affidavit with the county
38 assessor under section 42-11152 when initially claiming the exemption.
39 Each year thereafter, the person or the person's representative shall
40 annually calculate income from the preceding year to ensure that the
41 person still qualifies for the exemption and notify the county assessor in
42 writing of any event that disqualifies the person from further exemption.
43 Regardless of whether the person or representative notifies the assessor
44 as required by this subsection, the property is subject to tax as provided

1 by law from the date of disqualification, including interest, penalties
2 and proceedings for tax delinquencies. Disqualifying events include:

3 1. ~~EXCEPT AS PROVIDED IN SUBSECTION C OF THIS SECTION,~~ the person's
4 death.

5 2. The remarriage of a widow or widower.

6 3. The person's income from all sources exceeding the limits
7 prescribed by subsection ~~F~~ H of this section.

8 4. The conveyance of title to the property to another owner.

9 ~~I~~ L. Any dollar amount of exemption that is unused in a tax year
10 against the limited property value of property and improvements owned by
11 the individual may be applied for the tax year against the value of
12 personal property subject to special property taxes, including the taxes
13 collected pursuant to title 5, chapter 3, article 3 and title 28, chapter
14 16, article 3.

15 ~~J~~ M. An individual is not entitled to property tax exemptions
16 under more than one category as a widow or widower, a person with a total
17 and permanent disability or a veteran with a disability even if the
18 individual is eligible for an exemption in more than one category.

19 ~~K~~ N. For the purposes of this section:

20 1. "Competent medical authority" means any of the following:

21 (a) An individual licensed under title 32, chapter 8, 13, 14, 17,
22 19.1, 25 or 29 or a comparable law of another state.

23 (b) A registered nurse practitioner as defined in section 32-1601.

24 (c) The United States department of veterans affairs, as evidenced
25 by a disability award letter.

26 2. "Federal house price index" means the average measure of
27 movement of single-family house prices in the United States published by
28 the federal housing finance agency, or its successor, for this state.

29 3. "GDP price deflator" means the average of the four implicit
30 price deflators for the gross domestic product reported by the United
31 States department of commerce or its successor for the four quarters of
32 the state fiscal year.

33 4. "Person with a total and permanent disability" means a person
34 who is unable to engage in any substantial gainful activity, for pay or
35 profit, by reason of any physical or mental impairment that is expected to
36 last for a continuous period of at least twelve months or result in death
37 within twelve months as certified by a competent medical authority.

38 5. "Veteran" means an individual who has served in, and been
39 discharged, separated or released under honorable conditions from, active
40 or inactive service in the uniformed services of the United States,
41 including:

42 (a) All regular, reserve and national guard components of the
43 United States army, navy, air force, marine corps and coast guard.

1 (b) The commissioned corps of the national oceanic and atmospheric
2 administration.

3 (c) The commissioned corps of the United States public health
4 service.

5 (d) A nurse in the service of the American red cross or in the army
6 and navy nurse corps.

7 (e) Any other civilian service that is authorized by federal law to
8 be considered active military duty for the purpose of laws administered by
9 the United States secretary of veterans affairs.

10 Sec. 4. Section 42-11127, Arizona Revised Statutes, is amended to
11 read:

12 42-11127. Exempt personal property

13 A. Pursuant to article IX, section 2, subsection F, Constitution
14 of Arizona, personal property that is class two property pursuant to
15 section 42-12002, paragraph 2, subdivision (a) or (b) and that is used for
16 agricultural purposes or personal property that is class one property
17 pursuant to section 42-12001 and that is used in a trade or business as
18 described in section 42-12001, paragraphs 8 through 11 or 13 is exempt
19 from taxation up to a maximum amount of ~~\$207,366~~ \$500,000 of full cash
20 value for each taxpayer.

21 B. On or before December 31 of each year, the department shall
22 increase the maximum amount of the exemption for the following tax year
23 based on the percentage increase, if any, in the employment cost index for
24 total compensation for private industry workers in the two most recent
25 complete state fiscal years. For the purposes of this subsection,
26 "employment cost index" means the average of the employment cost indices
27 reported by ~~the bureau of labor statistics of~~ the United States department
28 of labor, BUREAU OF LABOR STATISTICS or its successor for the eight
29 quarters of the two most recent state fiscal years.

30 Sec. 5. Section 43-1022, Arizona Revised Statutes, is amended to
31 read:

32 43-1022. Subtractions from Arizona gross income

33 In computing Arizona adjusted gross income, the following amounts
34 shall be subtracted from Arizona gross income:

35 1. The amount of exemptions allowed by section 43-1023.

36 2. Benefits, annuities and pensions in an amount totaling not more
37 than \$2,500 received from one or more of the following:

38 (a) The United States government service retirement and disability
39 fund, the United States foreign service retirement and disability system
40 and any other retirement system or plan established by federal law, except
41 retired or retainer pay of the uniformed services of the United States
42 that qualifies for a subtraction under paragraph 26 of this section.

1 (b) The Arizona state retirement system, the corrections officer
2 retirement plan, the public safety personnel retirement system, the
3 elected officials' retirement plan, an optional retirement program
4 established by the Arizona board of regents under section 15-1628, an
5 optional retirement program established by a community college district
6 board under section 15-1451 or a retirement plan established for employees
7 of a county, city or town in this state.

8 3. A beneficiary's share of the fiduciary adjustment to the extent
9 that the amount determined by section 43-1333 decreases the beneficiary's
10 Arizona gross income.

11 4. Interest income received on obligations of the United States,
12 minus any interest on indebtedness, or other related expenses, and
13 deducted in arriving at Arizona gross income, that were incurred or
14 continued to purchase or carry such obligations.

15 5. The excess of a partner's share of income required to be
16 included under section 702(a)(8) of the internal revenue code over the
17 income required to be included under chapter 14, article 2 of this title.

18 6. The excess of a partner's share of partnership losses determined
19 pursuant to chapter 14, article 2 of this title over the losses allowable
20 under section 702(a)(8) of the internal revenue code.

21 7. The amount allowed by section 43-1025 for contributions during
22 the taxable year of agricultural crops to charitable organizations.

23 8. The portion of any wages or salaries paid or incurred by the
24 taxpayer for the taxable year that is equal to the amount of the federal
25 work opportunity credit, the empowerment zone employment credit, the
26 credit for employer paid social security taxes on employee cash tips and
27 the Indian employment credit that the taxpayer received under sections
28 45A, 45B, 51(a) and 1396 of the internal revenue code.

29 9. The amount of exploration expenses that is determined pursuant
30 to section 617 of the internal revenue code, that has been deferred in a
31 taxable year ending before January 1, 1990 and for which a subtraction has
32 not previously been made. The subtraction shall be made on a ratable
33 basis as the units of produced ores or minerals discovered or explored as
34 a result of this exploration are sold.

35 10. The amount included in federal adjusted gross income pursuant
36 to section 86 of the internal revenue code, relating to taxation of social
37 security and railroad retirement benefits.

38 11. To the extent not already excluded from Arizona gross income
39 under the internal revenue code, compensation received for active service
40 as a member of the reserves, the national guard or the armed forces of the
41 United States, including compensation for service in a combat zone as
42 determined under section 112 of the internal revenue code.

1 12. The amount of unreimbursed medical and hospital costs, adoption
2 counseling, legal and agency fees and other nonrecurring costs of
3 adoption. THE SUBTRACTION UNDER THIS PARAGRAPH MAY BE TAKEN FOR THE COSTS
4 THAT ARE DESCRIBED IN THIS PARAGRAPH AND THAT ARE INCURRED IN PRIOR YEARS,
5 BUT THE SUBTRACTION MAY BE TAKEN ONLY IN THE YEAR DURING WHICH THE FINAL
6 ADOPTION ORDER IS GRANTED. THE AMOUNT SUBTRACTED MAY not ~~to~~ exceed:

7 (a) IN TAXABLE YEARS BEGINNING BEFORE DECEMBER 31, 2025, \$3,000. In
8 the case of a husband and wife who file separate returns, the subtraction
9 may be taken by either taxpayer or may be divided between them, but the
10 total subtractions allowed both husband and wife may not exceed \$3,000.
11 ~~The subtraction under this paragraph may be taken for the costs that are~~
12 ~~described in this paragraph and that are incurred in prior years, but the~~
13 ~~subtraction may be taken only in the year during which the final adoption~~
14 ~~order is granted.~~

15 (b) IN TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025,
16 \$5,000 FOR A SINGLE INDIVIDUAL OR HEAD OF HOUSEHOLD.

17 (c) FOR TAXABLE YEARS BEGINNING FROM AND AFTER DECEMBER 31, 2025,
18 \$10,000 FOR A MARRIED COUPLE FILING A JOINT RETURN. IN THE CASE OF A
19 HUSBAND AND WIFE WHO FILE SEPARATE RETURNS, THE SUBTRACTION MAY BE TAKEN
20 BY EITHER TAXPAYER OR MAY BE DIVIDED BETWEEN THEM, BUT THE TOTAL
21 SUBTRACTIONS ALLOWED BOTH HUSBAND AND WIFE MAY NOT EXCEED \$10,000.

22 13. The amount authorized by section 43-1027 for the taxable year
23 relating to qualified wood stoves, wood fireplaces or gas fired
24 fireplaces.

25 14. The amount by which a net operating loss carryover or capital
26 loss carryover allowable pursuant to section 43-1029, subsection F exceeds
27 the net operating loss carryover or capital loss carryover allowable
28 pursuant to section 1341(b)(5) of the internal revenue code.

29 15. Any amount of qualified educational expenses that is
30 distributed from a qualified state tuition program determined pursuant to
31 section 529 of the internal revenue code and that is included in income in
32 computing federal adjusted gross income.

33 16. Any item of income resulting from an installment sale that has
34 been properly subjected to income tax in another state in a previous
35 taxable year and that is included in Arizona gross income in the current
36 taxable year.

37 17. For property placed in service:

38 (a) In taxable years beginning before December 31, 2012, an amount
39 equal to the depreciation allowable pursuant to section 167(a) of the
40 internal revenue code for the taxable year computed as if the election
41 described in section 168(k) of the internal revenue code had been made for
42 each applicable class of property in the year the property was placed in
43 service.

1 (b) In taxable years beginning from and after December 31, 2012
2 through December 31, 2013, an amount determined in the year the asset was
3 placed in service based on the calculation in subdivision (a) of this
4 paragraph. In the first taxable year beginning from and after
5 December 31, 2013, the taxpayer may elect to subtract the amount necessary
6 to make the depreciation claimed to date for the purposes of this title
7 the same as it would have been if subdivision (c) of this paragraph had
8 applied for the entire time the asset was in service. Subdivision (c) of
9 this paragraph applies for the remainder of the asset's life. If the
10 taxpayer does not make the election under this subdivision, subdivision
11 (a) of this paragraph applies for the remainder of the asset's life.

12 (c) In taxable years beginning from and after December 31, 2013
13 through December 31, 2015, an amount equal to the depreciation allowable
14 pursuant to section 167(a) of the internal revenue code for the taxable
15 year as computed as if the additional allowance for depreciation had been
16 ten percent of the amount allowed pursuant to section 168(k) of the
17 internal revenue code.

18 (d) In taxable years beginning from and after December 31, 2015
19 through December 31, 2016, an amount equal to the depreciation allowable
20 pursuant to section 167(a) of the internal revenue code for the taxable
21 year as computed as if the additional allowance for depreciation had been
22 fifty-five percent of the amount allowed pursuant to section 168(k) of the
23 internal revenue code.

24 (e) In taxable years beginning from and after December 31, 2016, an
25 amount equal to the depreciation allowable pursuant to section 167(a) of
26 the internal revenue code for the taxable year as computed as if the
27 additional allowance for depreciation had been the full amount allowed
28 pursuant to section 168(k) of the internal revenue code.

29 18. With respect to property that is sold or otherwise disposed of
30 during the taxable year by a taxpayer that complied with section 43-1021,
31 paragraph 11 with respect to that property, the amount of depreciation
32 that has been allowed pursuant to section 167(a) of the internal revenue
33 code to the extent that the amount has not already reduced Arizona taxable
34 income in the current or prior taxable years.

35 19. The amount contributed during the taxable year to college
36 savings plans established pursuant to section 529 of the internal revenue
37 code on behalf of the designated beneficiary to the extent that the
38 contributions were not deducted in computing federal adjusted gross
39 income. The amount subtracted may not exceed:

40 (a) \$2,000 per beneficiary for a single individual or a head of
41 household.

42 (b) \$4,000 per beneficiary for a married couple filing a joint
43 return. In the case of a husband and wife who file separate returns, the
44 subtraction may be taken by either taxpayer or may be divided between

1 them, but the total subtractions allowed both husband and wife may not
2 exceed \$4,000 per beneficiary.

3 20. The portion of the net operating loss carryforward that would
4 have been allowed as a deduction in the current year pursuant to section
5 172 of the internal revenue code if the election described in section
6 172(b)(1)(H) of the internal revenue code had not been made in the year of
7 the loss that exceeds the actual net operating loss carryforward that was
8 deducted in arriving at federal adjusted gross income. This subtraction
9 only applies to taxpayers who made an election under section 172(b)(1)(H)
10 of the internal revenue code as amended by section 1211 of the American
11 recovery and reinvestment act of 2009 (P.L. 111-5) or as amended by
12 section 13 of the worker, homeownership, and business assistance act of
13 2009 (P.L. 111-92).

14 21. For taxable years beginning from and after December 31, 2013,
15 the amount of any net capital gain included in federal adjusted gross
16 income for the taxable year derived from investment in a qualified small
17 business as determined by the Arizona commerce authority pursuant to
18 section 41-1518.

19 22. An amount of any net long-term capital gain included in federal
20 adjusted gross income for the taxable year that is derived from an
21 investment in an asset acquired after December 31, 2011, as follows:

22 (a) For taxable years beginning from and after December 31, 2012
23 through December 31, 2013, ten percent of the net long-term capital gain
24 included in federal adjusted gross income.

25 (b) For taxable years beginning from and after December 31, 2013
26 through December 31, 2014, twenty percent of the net long-term capital
27 gain included in federal adjusted gross income.

28 (c) For taxable years beginning from and after December 31, 2014,
29 twenty-five percent of the net long-term capital gain included in federal
30 adjusted gross income. For the purposes of this paragraph, a transferee
31 that receives an asset by gift or at the death of a transferor is
32 considered to have acquired the asset when the asset was acquired by the
33 transferor. If the date an asset is acquired cannot be verified, a
34 subtraction under this paragraph is not allowed.

35 23. If an individual is not claiming itemized deductions pursuant
36 to section 43-1042, the amount of premium costs for long-term care
37 insurance, as defined in section 20-1691.

38 24. The amount of eligible access expenditures paid or incurred
39 during the taxable year to comply with the requirements of the Americans
40 with disabilities act of 1990 (P.L. 101-336) or title 41, chapter 9,
41 article 8 as provided by section 43-1024.

42 25. For taxable years beginning from and after December 31, 2017,
43 the amount of any net capital gain included in Arizona gross income for
44 the taxable year that is derived from the exchange of one kind of legal

1 tender for another kind of legal tender. For the purposes of this
2 paragraph:

3 (a) "Legal tender" means a medium of exchange, including specie,
4 that is authorized by the United States Constitution or Congress to pay
5 debts, public charges, taxes and dues.

6 (b) "Specie" means coins having precious metal content.

7 26. Benefits, annuities and pensions received as retired or
8 retainer pay of the uniformed services of the United States in amounts as
9 follows:

10 (a) For taxable years through December 31, 2018, an amount totaling
11 not more than \$2,500.

12 (b) For taxable years beginning from and after December 31, 2018
13 through December 31, 2020, an amount totaling not more than \$3,500.

14 (c) For taxable years beginning from and after December 31, 2020,
15 the full amount received.

16 27. For taxable years beginning from and after December 31, 2020,
17 the amount contributed during the taxable year to an achieving a better
18 life experience account established pursuant to section 529A of the
19 internal revenue code on behalf of the designated beneficiary to the
20 extent that the contributions were not deducted in computing federal
21 adjusted gross income. The amount subtracted may not exceed:

22 (a) \$2,000 per beneficiary for a single individual or a head of
23 household.

24 (b) \$4,000 per beneficiary for a married couple filing a joint
25 return. In the case of a husband and wife who file separate returns, the
26 subtraction may be taken by either taxpayer or may be divided between
27 them, but the total subtractions allowed both husband and wife may not
28 exceed \$4,000 per beneficiary.

29 28. For taxable years beginning from and after December 31, 2020,
30 Arizona small business gross income but only if an individual taxpayer has
31 elected to separately report and pay tax on the taxpayer's Arizona small
32 business adjusted gross income on the Arizona small business income tax
33 return.

34 29. To the extent not already excluded from Arizona gross income
35 under the internal revenue code, the value of virtual currency and
36 non-fungible tokens the taxpayer received pursuant to an airdrop at the
37 time of the airdrop. This paragraph may not be interpreted as providing a
38 subtraction for any appreciation in value that occurs from holding the
39 virtual currency after the initial receipt of the airdrop. For the
40 purposes of this paragraph:

41 (a) "Airdrop" means the receipt of virtual currency through a means
42 of distribution of virtual currency to the distributed ledger addresses of
43 multiple taxpayers.

44 (b) "Non-fungible token" has the same meaning prescribed in section
45 43-1028.

1 (c) "Virtual currency" has the same meaning prescribed in section
2 43-1028.

3 30. The amount allowed as a subtraction by section 43-1028 for gas
4 fees not already included in the taxpayer's virtual currency or
5 non-fungible token basis.

6 Sec. 6. Section 43-1089.01, Arizona Revised Statutes, is amended to
7 read:

8 43-1089.01. Tax credit; public school fees and contributions;
9 definitions

10 A. A credit is allowed against the taxes imposed by this title for
11 the amount of any fees paid or cash contributions made by a taxpayer or on
12 the taxpayer's behalf pursuant to section 43-401, subsection G during the
13 taxable year to a public school located in this state for the following
14 public school purposes:

15 1. Standardized testing for college credit or readiness offered by
16 a widely recognized and accepted educational testing organization.

17 2. The career and technical education industry certification
18 assessment.

19 3. Preparation courses and materials for standardized testing.

20 4. Cardiopulmonary resuscitation training pursuant to section
21 15-718.01.

22 5. Extracurricular activities.

23 6. Character education programs.

24 7. From and after June 30, 2019 through June 30, ~~2024~~ 2029:

25 (a) Acquiring capital items, as defined in the uniform system of
26 financial records, including those items listed in section 15-903,
27 subsection C, paragraphs 2 through 8.

28 (b) Community school meal programs. An amount paid by an
29 individual to receive a meal or a meal card does not qualify as a fee or
30 donation for community school meal programs.

31 (c) Student consumable health care supplies.

32 (d) Playground equipment and shade structures for playground
33 equipment.

34 B. The amount of the credit shall not exceed:

35 1. \$200 for a single individual or a head of household.

36 2. \$400 for a married couple filing a joint return.

37 C. A husband and wife who file separate returns for a taxable year
38 in which they could have filed a joint return may each claim only one-half
39 of the tax credit that would have been allowed for a joint return.

40 D. The credit allowed by this section is in lieu of any deduction
41 pursuant to section 170 of the internal revenue code and taken for state
42 tax purposes.

43 E. If the allowable tax credit exceeds the taxes otherwise due
44 under this title on the claimant's income, or if there are no taxes due
45 under this title, the taxpayer may carry the amount of the claim not used

1 to offset the taxes under this title forward for not more than five
2 consecutive taxable years' income tax liability.

3 F. The site council of the public school that receives
4 contributions that are not designated for a specific purpose shall
5 determine how the contributions are used at the school site. If a charter
6 school does not have a site council, the principal, director or chief
7 administrator of the charter school shall determine how the contributions
8 that are not designated for a specific purpose are used at the school
9 site. If at the end of a fiscal year a public school has unspent
10 contributions that were previously designated for a specific purpose or
11 program and that purpose or program has been discontinued or has not been
12 used for two consecutive fiscal years, these contributions shall be
13 considered undesignated in the following fiscal year for the purposes of
14 this subsection, and the site council may transfer these undesignated
15 contributions to any school within the same school district.

16 G. A public school that receives fees or a cash contribution
17 pursuant to subsection A of this section shall report to the department,
18 in a form prescribed by the department, by February 28 of each year the
19 following information:

20 1. The total number of fee and cash contribution payments received
21 during the previous calendar year.

22 2. The total dollar amount of fees and contributions received
23 during the previous calendar year.

24 3. The total dollar amount of fees and contributions spent by the
25 school during the previous calendar year, categorized by specific
26 standardized testing, preparation courses and materials for standardized
27 testing, extracurricular activity or character education program.

28 H. For the purposes of this section, a contribution for which a
29 credit is claimed and that is made on or before the fifteenth day of the
30 fourth month following the close of the taxable year may be applied to
31 either the current or preceding taxable year and is considered to have
32 been made on the last day of that taxable year.

33 I. For the purposes of this section:

34 1. "Career and technical education industry certification
35 assessment" means an assessment for career and technical preparation
36 programs for pupils.

37 2. "Character education programs" means a program described in
38 section 15-719.

39 3. "Community school meal program" means a school meal program that
40 takes place before or after the regular school day on school property.

41 4. "Extracurricular activities" means school-sponsored activities
42 that may require enrolled students to pay a fee in order to participate,
43 including fees for:

44 (a) Band uniforms.

45 (b) Equipment or uniforms for varsity athletic activities.

1 (c) Scientific laboratory materials.

2 (d) In-state or out-of-state trips that are solely for competitive
3 events. Extracurricular activities do not include any senior trips or
4 events that are recreational, amusement or tourist activities.

5 5. "Public school" means a school that is part of a school
6 district, a career technical education district or a charter school.

7 6. "Standardized testing for college credit or readiness" includes
8 the SAT, PSAT, ACT, advanced placement and international baccalaureate
9 diploma tests and other similar tests.

10 7. "Student consumable health care supplies" includes tissues, hand
11 wipes, bandages and other health care consumables that are generally used
12 by children.

13 8. "Widely recognized and accepted educational testing
14 organization" means the college board, the ACT, the international
15 baccalaureate and other organizations that are widely recognized and
16 accepted by colleges and universities in the United States and that offer
17 college credit and readiness examinations.

18 Sec. 7. Applicability

19 Section 42-5061, Arizona Revised Statutes, as amended by Laws 2025,
20 chapter 135, section 1 and this act, and section 42-5159, Arizona Revised
21 Statutes, as amended by Laws 2025, chapter 135, section 2 and this act,
22 apply to taxable periods beginning on or after the first day of the month
23 following the general effective date.]

24 Sec. 8. Effective date

25 Section 42-11127, Arizona Revised Statutes, as amended by this act,
26 is effective from and after December 31, 2025.

27 Sec. 9. Retroactivity

28 Section 43-1089.01, Arizona Revised Statutes, as amended by this
29 act, applies retroactively to from and after June 28, 2024.

APPROVED BY THE GOVERNOR JUNE 27, 2025.

FILED IN THE OFFICE OF THE SECRETARY OF STATE JUNE 27, 2025.